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Unlocking mobile's power

Once viewed as a threat to the ISO business model, mobile POS technology is now embraced as a key element of any sales strategy

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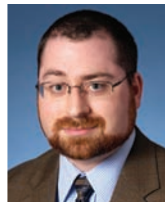

Daniel Wolfe
Editor

The Mobile Movement

MOBILE COMMERCE IS ENTERING A NEW PHASE. IT'S NO LONGER surprising when a restaurant allows people to browse a menu or place orders before they arrive, and this innovation is spreading to other merchant categories.

Not long ago, mobile technology was seen as a threat to the traditional business models of ISOs and

agents, cutting them out of the process of bringing payment acceptance to merchants. But merchants' needs are getting more complex, creating opportunities to experiment with new systems that place more emphasis on loyalty and omnichannel commerce. ISOs and agents can guide merchants through this growing array of options, deepening their involvement with clients.

This movement also emphasises the importance of experience and relationships, creating unlikely combinations of legacy companies and newcomers. The recently announced acquisition of digital deals provider RetailMeNot by Harland Clarke — a brand still known to many consumers as a supplier of paper checks — demonstrates how a company with deep roots can benefit by working with a younger entity that brings in a perspective from outside the payments market. **ISO**

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Keeping with Merchant Demand

Merchants are warming up to the idea of overhauling their technology to better integrate marketing and sales. It's up to acquirers to tap into this demand. **BY DAVID HEUN**

It's difficult for acquirers to have the proper payments technology available when merchant interest peaks. This is even more difficult as efforts such as Smart Cities and Internet of Things initiatives overwhelm retailers with options.

Retailers seeking ways to engage with consumers are revamping their stores and and further linking the sales experience with online, mobile and loyalty offerings. It's all a greenfield for acquirers — if they are prepared to serve it.

"Time to market is crucial, we are right at the cusp of where that turn is happening," said Zavida Mangaru, head of products at Total Merchant Services. "Merchants are seeing that they can replicate their messages in many places through omnichannel, rather than having one big footprint in one place."

Merchants are increasingly aware of, and interested in, technology that provides various touchpoints with consumers, Mangaru said.

"That's what will drive consumer adoption," Mangaru added. "The more places I, as a consumer, can use the advanced technology, the more likely I am to adopt it."

Woodland Hills, Calif.-based Total Merchant Services wants to grab a piece of that pie, expanding its Groovv integrated payments POS platform this week for developers to include an omnichannel environment for merchants through application programming interfaces and software development kits.

ªMerchants are seeing that they can replicate their messages in many places through omnichannel, rather than having one big footprint,º said Zavida Mangaru, head of products at Total Merchant Services

"We recognize the shift that is happening in retail and the desire for a mixed-use environment that allows a merchant to operate in a stable environment, like a store, but also use more mobile options within the stores or restaurants, or on the road," Mangaru said.

Offering the proper omnichannel technology allows a merchant to have a space within a mall setting, but also have a small station in the communal areas of that mall, she added.

One hand feeds the other in payments and retail settings these days, making it important for merchants to be able to offer customers the ability to order products at any location.

"Having this level of service greatly improves customer loyalty, a factor that is very important in today's retail ecosystem," said Jeff Scott, CEO of Infinite Peripherals, a mobile solutions provider.

With those services in place, retailers also can use their locations as shipping points, giving customers the option for same-day delivery or in-store pickup, Scott said.

As such, the current trend in omnichannel and mobile commerce essentially puts to rest the notion that retailers need to align themselves with a single mobile wallet or other emerging payment type. Rather, acquirers are taking the view that merchants simply need to be able to accept all forms of payments, from EMV to NFC and beyond.

"Accepting all payment methods is an integral component to the omnichannel experience," Scott added. "But the mobile wallet could make this more convenient and secure for both the customer and retail stores."

For now, ISOs and acquirers need to concentrate on the online channel in terms of being able to accept various payment types, said Richard Oglesby, president of AZ Payments Group and a senior analyst at Double Diamond Payments Research.

"There still isn't a lot demand from consumers to pay in-store with a wallet solution," he added. "When merchants don't accept in-store wallets, there aren't any major drawbacks."

A mobile wallet becomes a bigger factor in e-commerce because consumers can easily switch from one merchant to another when shopping online, Oglesby said. "The merchant that provides the most seamless experience from end-to-end is the one that will earn the sale."

But an acquirer's timing for all of this isn't just dumb luck. They have to be keenly aware of their merchants' taste in technology and willingness to change.

"It's also a matter of being able to expand on existing merchant relationships," Oglesby said.

If an ISO or acquirer has a portfolio of small restaurants, and they begin adding order-ahead capabilities, the provider "better have an API available so that their developers can route the order-ahead transactions to you," Oglesby added.

Otherwise, the failure to do so gives another acquirer a foot in the door. "So it's not always a matter of winning the developer, it could just be a matter of keeping the merchant," he said.

There is definitely an appetite for new systems such as mobile ordering. For example, after launching a mobile pre-order and pre-pay app at Five Guys burger locations in Paris and Madrid, Ingenico ePayments is preparing to make the system available at the chain's restaurants throughout Europe in the coming months.

The system accepts multiple currencies and payment types, as well as language options. In addition, Five Guys has been able to use the ePayments gateway with its chosen local acquirers.

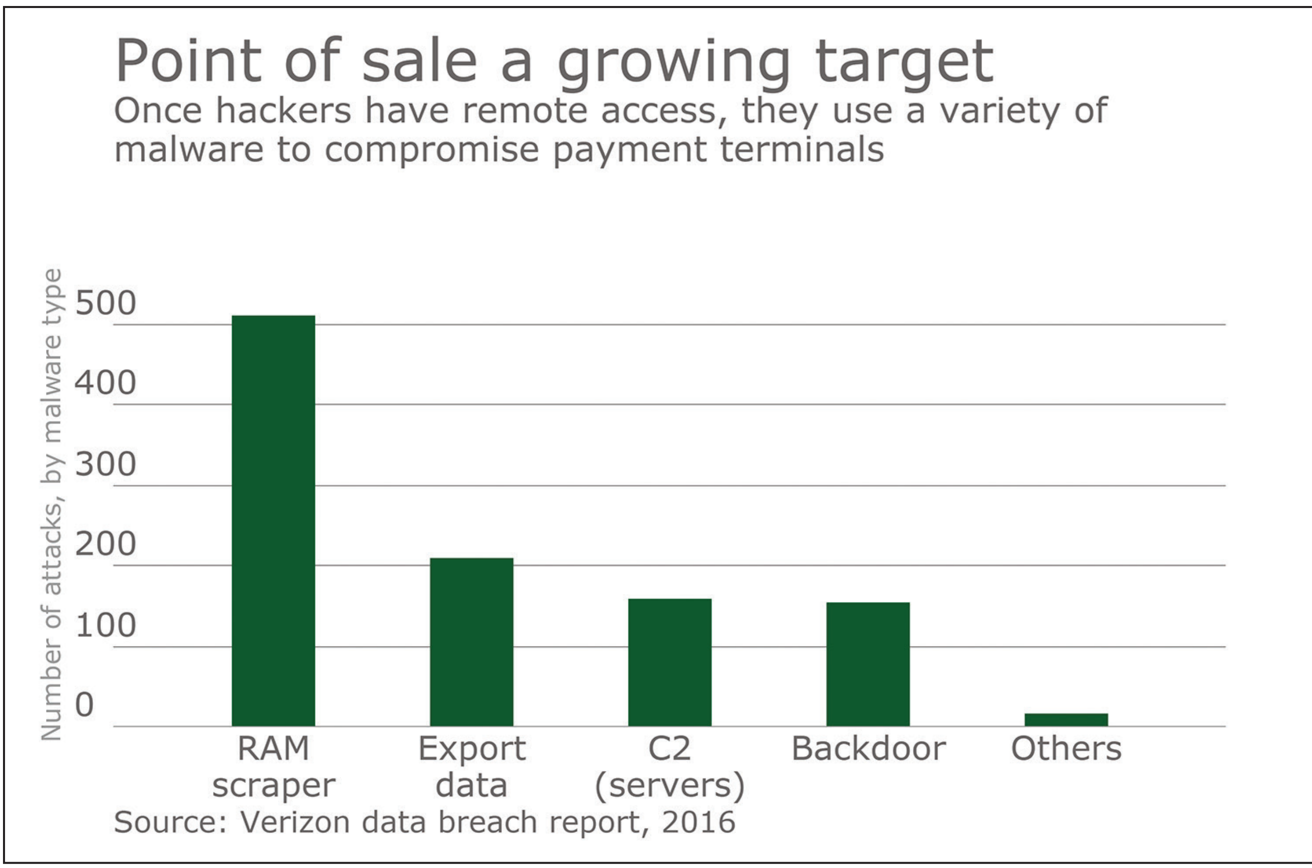
Ingenico ePayments has spent much of the past year building up its merchant acquirer network to help expand its omnichannel vision for merchants.

While technology such as mobile ordering is on a fast track, merchants may still show some reluctance to spend on upgrades.

"With many retailers so invested in legacy systems, it becomes an immense challenge to reverse engineer them," Infinite Peripheral's Scott said. "Rather than starting out fresh and throwing everything out, retailers should focus on adapting their legacy systems with mPOS technology and make sure both systems are integrated properly." **ISO**

Cybercrime at the Terminal

Fraudsters are always looking for the weakest link, wherever it happens to reside in the payments ecosystem. BY DAVID HEUN



Malicious hackers tend to swarm around industries they perceive as vulnerable, and terminal makers are the latest to find themselves in the crosshairs.

Years ago, payment processors seemed to be a favorite target — Heartland Payment Systems, Global Payments, RBS WorldPay and more disclosed breaches dating back to 2009 — and then attention shifted to retailers with Target's widely publicized incident in 2013.

A recent report that Verifone began investigating a breach of its internal network signals another shift in fraudster behavior.

"The hackers are not going after retailers as much, but they are going after the POS vendors," said Stephen Boyer, chief technology officer, for BitSight Technologies, which measures acyber security performance.

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[1] The Strawhecker Group Mini Report; includes merchants with between $500-$500K in annual volume.

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Most recent research from Cambridge, Mass.-based BitSight indicates that one in four data breaches involving payment card data have the POS terminal or network as the source of the compromise. It's an indication that criminals have switched their past focus on payment processors and retailers and are finding the companies that provide equipment to be easier targets.

In addition to payment card data, hackers inside a POS provider's network can find human resources and employee information, e-mail lists, website credentials, and details about other services the company may provide, Boyer said.

"This is really important for the industry to understand because the hacker is thinking all he has to do is go after a POS vendor and then get into their hundreds of thousands of endpoints," Boyer said. "Get the passwords for remote management and you get into a network to exploit not just one retailer, but maybe hundreds and thousands that the company services."

It's also why the retailer may get the immediate headlines when a breach occurs, but the source of the breach is increasingly becoming the POS provider, not an oversight on the retailer's part.

Verizon's 2016 data breach investigation report warned that the new trend of attacks against POS vendors was picking up steam, citing 97% of POS breaches featuring stolen credentials came about when a hacker used legitimate "partner" access to enter a network.

"This year continued the trend of the criminal sprees in our data being associated with attacks against POS vendors, followed by using their access into the customer database," Verizon said in its report. To combat that, Verizon encouraged merchants to make sure their POS vendor had a second access factor beyond a password; something like a hardware token or mobile app, as well as a system for monitoring login activity.

But the incidents continue.

Last week, the upscale Cleveland-based Select Restaurants Inc. chain had its customers' payment data exposed through what was believed to stem from an attack on the POS provider 24X7 Hospitality Technology. Again, the culprit was a remote access compromise, according to data security expert Brian Krebs.

It's worth noting that the Verifone incident, which Krebs covered, affected its internal network and did not affect its payments service network. The Verifone incident also illustrates what may become more common for POS vendors in quickly explaining to clients and media what happened.

Information security teams at Verifone "identified evidence of this very limited cyber intrusion into our corporate network in January of 2017," Verifone said. While saying it was in immediate contact with the card brands and its clients to explain the breach, Verifone also sought to minimize fears in saying there had been "no adverse effects or misuse of any data" resulting from this incident.

There are other incidents, such as three years ago when more than 200 Jimmy John's restaurants were breached through remotely planted malware. The restaurant discovered the problem when POS manufacturer Signature Systems Inc. informed its clients that the hackers used compromised terminal passwords to plant the malware.

With that sort of success, hackers have quickly placed attacks on payments supply chains, with the goal of obtaining remote management passwords and codes, at the top of their target list.

Indeed, hackers have been licking their chops over the prospect of getting into terminal vendors' inner sanctums for many years.

"In general, fraudsters will push and probe at the financial services value chain, looking for windows of opportunity," said Julie Conroy, research director and fraud expert with Boston-based Aite Group. "When they find an open window, they intensively attack it, knowing they have a limited time before that avenue of compromise is sealed."

The payments industry is all too familiar with the way fraudsters focus on a particular vertical whenever they believe they have found a weakness.

"The hotel and restaurant POS systems that were compromised in multiple events in 2015 and 2016 are a good example, often taking advantage of the fact that the user never reset the default password," Conroy added.

Possibly even more alarming, and further down the supply chain, Conroy said instances were confirmed last year in which mobile devices being shipped out of China had malware pre-loaded.

The bigger technology players are not immune.

Late in 2016, Oracle's Micros POS unit suffered a data breach, and the red flags began going up in terms of POS vendors reinforcing business strategies with an emphasis on security.

"The retailers do as much as they can to lock down their own systems, but the people who do the service to these endpoints are getting compromised," BitSight's Boyer said. "And then the retailer is compromised as a result. It's a really hard problem."

No one had a magic formula in hand to predict and warn the payments industry a few years ago that the POS vendors would be the next in line of a hackers' pecking order that started with processors like Heartland and continued with major retailers like Target and Home Depot.

"The attackers move quickly from one weak spot to the next weak spot," Boyer said.

"To be thinking years ago that you were probably the next target, that's a lot more foresight than a lot of these companies have." **ISO**

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Can Technology Save ISOs?

The technology that once threatened the ISO business model is turning out to be its savior.

BY DAVID HEUN

As digital and mobile capabilities have taken hold on payments and data security, acquirers and independent sales organizations have needed to quickly ramp up their tech knowledge.

At first blush, some seven years ago, the acquiring and ISO community may have looked more like a deer in the headlights than an eager and willing participant in technology that would essentially change their successful and relatively comfortable business models.

“We certainly talked about current events in the market, and for a couple of years there was a pretty grave concern growing around our futures,” said Marc Castrechini, vice president of product management at Boston-based Cayan, formerly Merchant Warehouse. “Some of it was that some of the industry was ripe for consolidation, but mostly it was about keeping up with the pace of evolution and change.”

Fast forward to 2017 and many of the organizations wondering about whether they had a place in the new payments landscape have instead found that technology has been a savior on many fronts — from better payments experiences, to enhanced customer service and faster merchant registration.

“Ultimately, we were saying it doesn’t seem as bad as we thought it would be,” Castrechini said.

ªFor a couple of years there was a pretty grave concern growing around our futures,º said Marc Castrechini, vice president of product management at Cayan.

The reasons for the sudden optimism lies in the fact that technology has cured headaches that ISOs battled for years.

The merchant underwriting and boarding process sometimes took weeks. Now, there’s technology to do that in real-time. The ability to provide all payment method options for a merchant could mean time-consuming complexities. Now, there’s technology in place to provide all of that, in some cases from the same provider.

Real-time payments and even a same-day Automated Clearing House option were only dreams in the past. Technology makes that all possible now.

Poor communication tools, to the point where a merchant might never find the salesperson or customer service rep to immediately solve an issue, did nothing to help retention. Technology now provides 24/7 customer service help and online chat rooms to solve issues.

There are others changes, depending on the merchant and vertical, but the message is the same: The technology that had the potential to destroy the livelihood of an ISO has very likely saved the industry. As such, far more ISOs are creating opportunities for all types of sales and customer retention value-adds that help merchants do more than just plug in off-the-shelf terminals.

"The ISO doesn't want to go away and the small community bank doesn't want to go away," said Richard McShirley, chief marketing officer for Oxnard, Calif.-based linked2pay, which has been scoring good marks with ISOs needing a one-stop shop for all of these technological advances. "It's about automation for the banks and the ISOs to provide these services and cut the cost of delivery."

Technology improves both sales and retention, said Chris McNulty, president of Wimsett&Co.

Acquirers and ISOs that have fully embraced new technology know it has resulted in an increase in their most valuable commodity: time.

ISOs can be providers of automation services, said Richard McShirley, CMO of linked2pay.

"A big benefit for me is when I go to a town two hours away, I can get a merchant instantly approved now while I am there, and won't have to go back another day to do it or get a signature," said Jim Malcolm, president of sales at Veritas Payment Advisors in Oklahoma City. "That's important to me because I have customers all over the U.S., and now I can get things done remotely and train them right there."

In the ISO game, wasted time is wasted money.

"You are losing money if you are waiting a week to start processing payments," Malcolm said. "If I can get them approved that day, I can start making money that day."

It explains why ISOs were so concerned when disruptors or third-party providers sought to streamline the sales process by removing ISOs from it. But many of those innovations could be applied to the ISOs' own business practices.

"ISOs are sales organizations, so from their mentality, any time you can free up a sales person time to sell more, the more successful the organization will be," said Chris McNulty, president for Louisville, Ky.-based Wimsett & Company, an acquiring and payments consultant for business owners, banks and ISOs.

"Anything that streamlines the paperwork or improves the boarding process and results in less rework or chasing paper, that's more time to spend on the next sale," said McNulty, who also serves on the linked2pay board.

Another piece of the technology puzzle is retention.

"If a merchant gets the info they need in the easiest way possible, the ISO is going to retain that merchant and it will result in more sales and keeping the sales you make," McNulty said. "It grows your organization and that's true whether it is an ISO or a bank; basically whoever is out touching the customer."

New technology can not only help ISOs resolve issues with equipment problems easier, it also provides an option that cuts down on the maintenance needs of POS hardware through the

ªI can get a merchant instantly approved now,º said Jim Malcolm, president of sales at Veritas.

use of cloud-based virtual terminals.

"Virtual terminals are really big," Malcolm said. "If someone has a question about this terminal, you can just resolve it through the chat button."

Technology has also narrowed the gap between companies like Cayan and the smaller linked2pay. **ISO**

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RetailMeNot Gets a New Role

As part of Harland Clarke Holdings, internet coupon hub RetailMeNot will play a key role in providing a link between marketing and sales. BY JOHN ADAMS

Harland Clarke's acquisition of RetailMeNot may signal a flood of similar deals, as merchant service providers scramble to improve location-based marketing beyond its current state.

The impetus for such moves is competition from e-commerce, where heavy hitters like Amazon have streamlined the purchase process to the point where the payment is nearly invisible — and a sharp contrast to the brick-and-mortar world where the EMV migration has drawn out the payment process in the eyes of many shoppers.

But merchants have also been burned in the past by digital payment and loyalty platforms that over-promised their benefits or even clashed with retailers' preferred payment and loyalty platforms. RetailMeNot, a product of the digital world, can address this pain point.

"Harland Clarke is trying to transform from a transaction company to a data company, which is especially important when you consider its roots are in paper checks," said Richard Crone, a payments consultant. "This gives Harland Clarke a rich offer inventory, but that inventory only generates revenue if you can prove a new sale … The real attraction for Harland Clarke and the electronic offers industry in general is the purchase verification."

A company that can demonstrate the link between a coupon, ad or special offer and a sale through a digital trail can command a cut of the purchase that's larger than interchange, he said. "It's about attribution."

Crone predicts other traditional payment companies will buy technology companies to provide marketing and sales analysis. While it's important for retailers to increase foot traffic in their stores, it is more important that the people that come into the stores actually buy something, he said.

Harland Clarke will spend an equity value of $630 million for RetailMeNot, which offers a mobile app that uses geolocation and notifications to tell shoppers they are near a location with a discount offer.

By adding RetailMeNot, Harland Clarke Holdings will substantially increase its digital presence and gain a direct-to-consumer relationship with the RetailMeNot brand, as well as adding access to new channels and products for its clients, said Debbie Serot, senior vice president of corporate communications for Harland Clarke Holdings.

"RetailMeNot's innovative market

leading network will be the perfect complement to our omni-channel suite of services," Serot said in an email. "The massive digital audience provided by RetailMeNot will serve to create the premier savings destination for consumers."

Harland Clarke can benefit from the deal in a couple of ways. First, it can respond to the pressure that's on all legacy payment companies, ranging from card networks to processors to terminal manufacturers, to diversify in merchant services. Harland Clarke Holdings' corporate roster already includes Valassis, a marketing data company; and RetailMeNot provides real-time deals that can link promotions to sales at the merchant.

It also enables Harland Clarke to fight against the encroachment of competitors that match omnichannel retail marketing to sales, such as InstreamGlobal and Catalina. Other companies are pursuing the market from the mobile shopping side, such as Shopkick and Foursquare.

These companies are luring merchants at a time when consumers are warming up to mobile-delivered loyalty and marketing programs. Last month, mobile consultant Vibes reported nearly three quarters of consumers have a more positive perception of a brand because it delivered a loyalty program through a mobile app.

And given the decline of traditional retail, stores may be looking for any advantage they can get.

"It is proven that certain merchant types can increase shops and average ticket using incentives," said Tim Sloane, vice president of payments innovation at Mercator, adding CVS and Starbucks are among the retailers that have benefited from this process.

"A critical factor for success is ease of use and high value for the consumer, which includes offers that are relevant," Slone said.

"This is not easy for any provider to implement and the more parties that are in the value chain, the harder it is to succeed." **ISO**

How

Image from Gettyimages.com

acquirers are adapting to the **mobile threat**

AS TRENDS IN PAYMENTS TECHNOLOGY take hold or taper off, it's safe to say that one is firmly entrenched: The shift to mobile and integrated point of sale devices.

Square kicked off the mobile POS trend about seven years ago by targeting micro merchants with a card-swiping dongle attached to a smartphone, a model that by today's standards seems much more bare-bones. But Square's real influence wasn't its technology; it was its sales model, which cut out independent sales organizations and agents in favor of selling payment technology through convenience stores.

Other companies iterated on this model. Groupon, for example, chose to use its internal sales force to sell its Breadcrumb POS devices rather than partner with ISOs. The implication was obvious: As more merchants favored mobile devices, fewer would see a need to work with an ISO.

Traditional acquirers and terminal makers responded to this threat by looking ahead, envisioning a market where off-the-shelf card readers would no longer satisfy small-business owners. That vision is becoming a reality.

Traditional acquirers and terminal makers saw mobile payments as a threat to their business model. They responded to this threat by looking ahead, hoping to address the pain points that the newcomers overlooked.

BY DAVID HEUN

In 2017, merchants are demanding more robust technology, providing another opening for terminal makers and ISOs to defend and reclaim their turf. Paul Galant, CEO of terminal manufacturer Verifone, put it this way during the company's first-quarter earnings call: "Next generation devices are the company's future, and those devices will have significant need in the North American market."

While acknowledging that First Data with its Clover series of mobile terminals and Square with its readers and tablet-based POS stations "have done a phenomenal job of creating a new category," Galant echoes the thoughts of the traditional POS providers in making it clear they never had any intention of letting this particular trend fly by them.

"This is a category with global implications," Galant said. "And Verifone's position in this space is that we are a scale player and we will be using that scale to really accelerate the third-party development community interaction with our platform and devices."

A technology driven industry

The common definition of a "mobile POS" device has two major components.

One is the dongle attached to a smartphone; the other is a smaller tablet-based or handheld terminal that employees can move around a business showroom, warehouse, outdoor displays, markets, kiosks or at drive-through lines of quick-service restaurants.

"Tablet POS solutions started as higher-end system candidates, but they are now gravitating toward more sophisticated, integrated POS environments," said Ian Stuttard, head of product and innovation at Elavon, the payments unit of U.S. Bank. "These terminals handle business, inventory and employee time management, data analytics and marketing solutions."

Prior to Square introducing its mobile POS system, merchants were using NCR cash registers or standard tabletop legacy terminals from IBM, Verifone, Ingenico or Hypercom [Verifone acquired Hypercom in 2011 and sold its U.S. assets to Ingenico].

The turnover in terminals was accelerated with the EMV liability shift in the U.S. in 2015.

"It's a reflection of how payments have evolved from being a sales driven industry to a technology driven industry," Stuttard added.

Shift in sales

Even with enticing developments in technology, old habits are hard to break.

"Acquirers are still selling the standard tabletop models because they know that equipment works, and many of them are selling the same equipment they have for years," said Paul Martaus, a merchant acquirer consultant and industry researcher.

Sometimes technology stubs its own toe and slows down a process. Many processors aren't up to speed on EMV chip technology, let alone integrated payments, which slows down acquirers looking to equip merchants with "future-proof" terminals capable of EMV and mobile payments, Martaus said.

"A pretty big segment of acquirers is going to the iPad-based devices because merchants want to take advantage of that mobility, but in those I talk to, that would still be a minority," Martaus added.

However, terminal makers are seeing a broader shift.

Scott Holt, vice president of marketing and product at Ingenico, says his company has seen sales shift to 60% of device sales attributed to next-generation devices used by small merchants, and 40% for the larger terminals and retailers.

The trend has really taken hold in the last couple of years, with more mobile POS providers entering the field, Holt said.

"From our perspective, in 2015, we were shipping 1.3 million terminals in traditional form factors," he added. "The customers still wanted reliability and security, which is always top of mind."

But as iPad-based POS systems attracted more merchants, the lines between the small and large clients' needs became more blurred and the number of mobile devices sold has risen, Holt said.

It was becoming increasingly clear that a terminal able to add software for services above and beyond payment acceptance was finding a good number of willing buyers.

NCR introduced its NCR Silver mobile- and cloud-based POS during this transition, falling into a marketplace that was primed for innovation.

> "A pretty big segment of acquirers is going to the iPad-based devices."
> -Paul Martaus, consultant and industry researcher

"Just like locusts, the average innovation and replacement cycle for a POS is seven years," said Chris Poelma, president and general manager of NCR Silver. "When you look at all of the new technology being developed, plus that seven-year cycle on POS replacement and the EMV liability shift in 2015, those three things created a perfect storm for change."

And how did the landscape look after the storm cleared?

"Merchants are absolutely embracing it and they are running to it," Poelma said of the smaller, mobile POS units. "The reason is that mobile devices are everywhere, and in some countries you

are more likely to see people who have a mobile phone than they are to have a permanent residence."

It's a pretty straightforward process for a small business owner to begin using a mobile POS system that is likely to be similar to the mobile devices he personally uses, Poelma added. "It lowers the complexity and the cost is palatable because it is part of an ongoing revenue model."

What comes next

The effort to lure and service small merchants may never be more apparent than with Verifone's new e285 mobile POS designed to connect with phone data, WiFi or Bluetooth.

"This product is an example of how we're innovating to support the cashless evolution in many regions of the world and provide another option for merchants … that can do it all-in-one without dongles, smart device pairings or cards," said Glen Robson, executive vice president and global head of solutions at Verifone.

It represents another shift in the mPOS market, one in which the terminal maker's device simply looks, feels and acts like another smartphone in the user's hands.

Merchants in advanced markets are seeking deeper customer experiences while replacing their traditional terminals with something designed to look and operate more like consumer products, Robson said.

A role for ISOs

It wasn't that long ago that independent sales organizations and resellers were being warned that their business model would become obsolete as mPOS makers like Square and Groupon sold their products through retailers or their own in-house sales staff.

The message had an underlying meaning: If the ISOs and acquirers didn't understand the technology, the traditional payments ecosystem could sputter and leave the door open for third-party providers.

For the most part, the same acquirers and ISOs hearing those warnings are still around. They've adjusted quite nicely.

"ISOs in many cases are embracing it faster than some of the long tail of the primary payment processors that are not," said NCR's Poelma. "The big 10 processors in this country are all over it, but after that, some are not as quick to embrace the new technology."

ISOs are essentially sales-driven and customer-focused organizations, so they had much at stake if they let payments technology pass them by.

Essentially, they took a look at integrated payments and liked what they saw.

"ISOs have been very adaptable and had much success in this environment," Elavon's Stuttard said. "They understood that it was going to be a very technology-driven marketplace and customers were going to be more demanding. And they have reacted accordingly."

Ingenico doesn't service small merchants directly, instead using the ISO and acquirer channels to offer services and products through Ingenico Mobile.

"All of the acquirers and largest and midsize ISOs have focused on the need to become true technology providers and not just the people who start merchant accounts and roll out a terminal," Ingenico's Holt said.

Ultimately, all of the latest mobile technology trends have resulted in terminal providers, software developers, ISOs and acquirers moving in the same direction.

"As dynamics change, our partners are telling us they want technology added on the front end and technology added to the POS," Holt said. "It's more about being a technology provider now than ever before." **ISO**

COSTCO'S POWER

As American Express and Citigroup clashed over which issuer would get the coveted Costco Warehouse credit card business, one area remained undisputed and out of their hands: Payment processing for Costco's small business clients.

That role is held firmly by Elavon, a unit of U.S. Bank, which marked its 20th year in April as the provider for small businesses that seek payment processing as part of their Costco memberships. First Data has a similar role with Sam's Club, providing the payment processing for more than a decade for members of the Walmart-owned warehouse retailer.

The merchant warehouses "are not in the payment processing business, but they know it is a necessary evil," said merchant acquirer consultant Paul Martaus. "Costco is incredibly loyal to Elavon because they know the payment processing service they provide works, and if it isn't broke, don't fix it."

Haggling over a couple of basis points on processing services makes no sense when you are more interested in the customer service being provided, Martaus said. "I'm fairly certain it is a pot of gold for Elavon, and all they have to do is perform."

Elavon has service centers at Costco stores and helps set up merchants for card-present or card-not-present payment card acceptance. It offers the Poynt mobile POS system or the Talech with Elo terminal common in restaurant settings.

"When a business has a membership with Costco for supplies, water and equipment for their offices, one of the most popular services is buying discounted credit card processing through Costco," said Ian Drysdale, executive vice president of business development for Elavon. "That's what we provide."

First Data has been doing much of the same type of work with Sam's Club members, pushing EMV acceptance and mobile POS terminals from is Clover family of products.

"Sam's Club is an important partner, as we are both laser focused on meeting the needs of small businesses," said Debbie Guerra, senior vice president and head of SMB Direct at First Data.

Working with a retailer warehouse is not an overwhelming task, Guerra said.

"The U.S. small business opportunity is large and our direct sales force and ISOs all have a degree of specialization, so we don't view this as adding pressure," Guerra said. "From a technology standpoint, the pressure to be ahead of the curve is really being generated by market demands."

New Options for Subprime Credit

Consumers who are categorized as subprime are getting more options for shopping online.

BY KATE FITZGERALD

In the shift to online and mobile shopping, one group often left out is the 65 million Americans with poor or no credit. But as more retail categories like furniture move online, a growing number of e-commerce merchants is adding instant finance options for the subprime crowd.

The shift is giving merchants the opportunity to test the placement of checkout buttons to see which of their expanding options get the best results.

Ghostbed, which sells memory-foam mattresses online, recently added two new alternative financing buttons to its website to accommodate the growing number of consumers starved for credit.

"Our whole concept is based on immediate purchase and delivery of a bed, and about half of our audience has no credit, so we needed a channel for those customers alongside the traditional payment choices," said Marc Werner, CEO of Plantation, Fla.-based mattress manufacturer Nature's Sleep, Ghostbed's parent company.

One solution emerged from Zibby, a New York-based lease-to-own company specializing in loaning money to consumers with low or no credit for furniture, electronics and appliance purchases.

Ghostbed promotes Zibby in a prominent corner of its main landing page, touting the option to buy with no credit required, and after piloting the service last fall it's become a permanent option that's driving "strong results" for beds that cost about $500 to $1,000, Werner said.

Consumers opting to pay with Zibby enter their mobile phone number and provide details including their address, Social Security number and estimated income.

Most are immediately approved to borrow up to Zibby's limit of $3,500 per individual per month, according to the New York-based lender, which shoulders a short-term loan consumers can pay off in installments or sooner.

Zibby skips FICO scores, running a quick scan of prospects' identities and location using data-verification tools from LexisNexis, IDology and FactorTrust instead, said Zac Prince, Zibby's senior vice president of sales and marketing.

"We triangulate data from a variety of sources and process it with machine learning to get an instant credit decision," Prince explained, noting that most new customers are approved within 30 seconds. Zibby, owned by Cognizant, received $150 million in financing in February from Victory Park Capital.

Around the same time Ghostbed added Zibby to its checkout menu, the company identified another segment of consumers seeking alternative finance options, and in February Ghostbed added Klarna, which targets consumers with solid credit who nevertheless want to pay in installments. ISO

Did Durbin Help Credit Cards?

Banks have often complained that the Durbin amendment put them at a disadvantage. But did the changes actually help their bottom line? **BY KEVIN WACK**

For half a decade, big banks and retailers have been quarreling about the effects of government-imposed price caps on U.S. debit card fees.

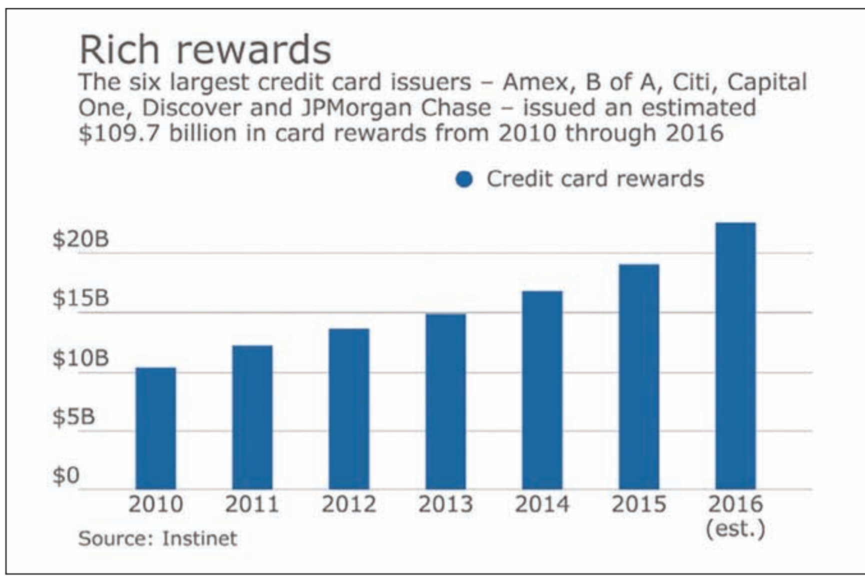
The banks contend that merchants have pocketed a $42 billion-plus windfall in the years since the Federal Reserve capped the fees that big banks charge retailers whenever a customer pays with a debit card.

Retailers say that claim is nonsense: Merchants operate in a competitive environment, and the money they save on swipe fees eventually winds up in the pockets of consumers.

What is lost in this high-stakes tit-for-tat, which is being fought with renewed vigor in the early days of the Trump administration, is any consideration of how the price ceiling is affecting consumer spending patterns.

Yet there is mounting evidence that as a result of the five-year-old debit card rules — or more precisely, as a result of how the banking industry responded to the rules — Americans are spending more money on their credit cards.

Between 2012 and 2015, the number of U.S. credit card transactions grew slightly faster than the number of debit card transactions, according to Federal Reserve data. Those numbers represent a huge turnaround from the previous decade, when debit card use was growing by leaps and bounds.



The price cap is surely not the only factor in the shift, but experts say that it had a significant impact. “It’s an important part of the picture,” said Nick Clements, a former credit card industry executive.

Many Americans who lean heavily on reward-laden credit cards are likely benefiting in today’s landscape. But the shift toward plastic carries risks for other consumers, who may incur finance charges. The trend may also be having a negative influence on some consumers’ saving habits.

Rewards growth fuels spending

The Fed’s debit card fee ceiling was implemented in response to 2010 legislation that was sponsored by Sen. Richard Durbin, D-Ill.

Since the Durbin amendment took effect, banks that are subject to it have been collecting around 23 cents in interchange fees for each debit card transaction, down from 51 cents before the rule’s enactment.

Meanwhile, the fees that banks get paid for credit card purchases were unaffected by the Durbin amendment. Today those charges are often at least twice as high as the fees banks collect from similar debit card transactions.

Even before Congress passed the Durbin amendment, banks had a financial incentive to encourage the use of credit cards, because of the interest

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income and penalty fees they collect from consumers. But the math became more compelling once the debit card price ceiling took effect.

"If someone has a choice between push steak and beef stew, they make more money on steak, so they'll push the steak," said Mallory Duncan, senior vice president at the National Retail Federation.

Referring to the banking industry, he said, "If they can make monopolistic fees on credit cards, they're going to push credit cards."

The U.S. credit card industry is heavily concentrated — JPMorgan Chase, Bank of America, Citigroup, American Express, Capital One Financial and Discover Financial Services have roughly 70% of the total market share. Over the last five years, the big six issuers have sought to attract credit card spending by continually sweetening the cash and travel-based rewards they offer to their customers.

In 2013, Capital One launched the Quicksilver card, which offered 1.5% cash back on every purchase. The following year, Citi rolled out its Double Cash card, which further upped the ante. In 2016, Chase announced Sapphire Reserve, which offered new cardholders points worth $1,500 if they spent $4,000 in the first three months.

"There's been an arms race between issuers," said Greg McBride, chief financial analyst at Bankrate.com.

In 2011, the big six issuers sent $12.2 billion to consumers in the form of credit card rewards, according to a recent research note by analysts at Nomura Instinet. By last year, that figure had risen to $22.6 billion.

"Attractive credit card rewards … have fueled credit card spending volumes," the analysts wrote.

Mixed outcomes for consumers

The most comprehensive report on Americans' payment habits is published by the Fed once every three years. It is based on data reported by a sample of depository institutions.

During the 2000s, before the arrival of the debit card fee cap, consumers' use of debit cards grew rapidly, according to the Fed data. Between 2003 and 2006, U.S. debit card transactions increased by 74.4%. Between 2006 and 2009, those payments grew by 52.6%.

Meanwhile, U.S. credit card transactions grew by just 14.2% between 2003 and 2006, and they actually declined by 3.2% during the next three-year period.

A number of factors are at play here. The U.S. debit card market was still fairly small in the early 2000s, which made it easier to achieve impressive growth rates. And during the Great Recession, many consumers had their credit lines cut, which undoubtedly had a significant impact on credit card spending in 2009.

Still, the spending patterns from the 2000s were a reflection of the banking industry's substantial efforts to market debit cards at that time. Part of the industry's motivation was to reduce consumers' use of checks, which are costly to process. Hefty interchange fees on debit cards were another factor.

The Durbin amendment took effect in October 2011. Between 2012 and 2015, credit card transactions grew by 26.1%, slightly outpacing debit card transactions, which rose by 23.0%, according to the Fed data.

During the same three-year period, spending on credit cards rose by $610 billion, compared with a $460 billion increase in debit card spending, the Fed found.

This turnaround from the previous decade's spending trends happened despite the fact that many consumers, chastened by the financial crisis, had grown warier of debt.

To be sure, the share of cardholders who use credit cards in low-risk ways has been growing.

In the third quarter of 2016, 29.2% of U.S. credit-card holders paid off their entire balance each month, according to the American Bankers Association. That figure was just 19.5% in the third quarter of 2008.

For savvy shoppers, leaning heavily on a credit card that offers generous rewards can yield substantial savings. "If you really use it to your advantage, there's a lot of money that you can squeeze out of it," said Brian Riley, director of the credit advisory service at Mercator Advisory Group.

But for credit-card holders who pay interest charges each month, the recent shift in spending patterns is more worrisome. Consumers had $995 billion in revolving debt outstanding in December, which was approaching the record of $1.004 trillion set in December 2008, according to the Fed.

In the fourth quarter of 2016, Americans had access to $2.57 trillion in available credit on their cards, an increase of more than $470 billion from four years earlier, according to data from the Federal Reserve Bank of New York. Late-payment rates on credit cards remain low by historical standards, but they are widely expected to rise as a result of increased use.

Even for consumers who pay off their entire bill each month, an increased reliance on credit cards may have negative repercussions. Some observers contend that consumers spend more money when they pay with credit cards, because it hurts

"There's been an arms race between issuers."

-Greg McBride, chief financial analyst, Bankrate.com

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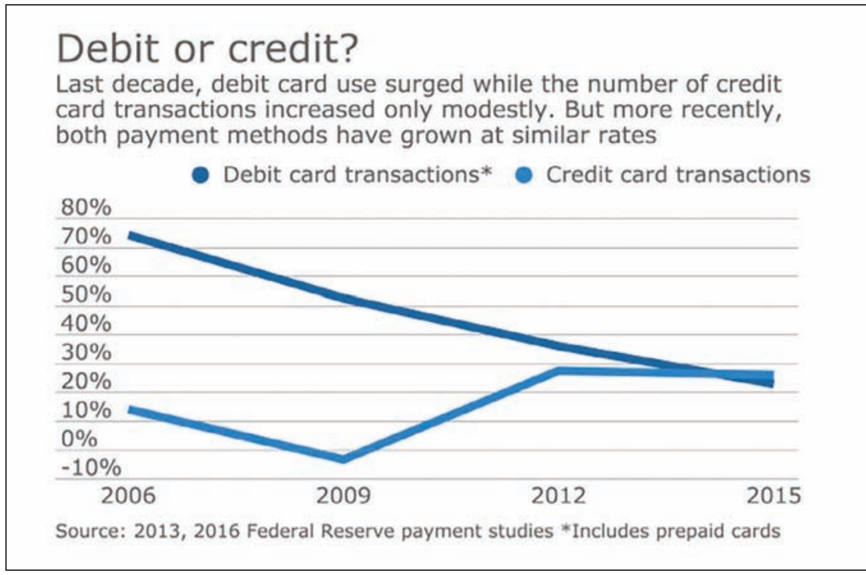
In any event, the U.S. personal savings rate is currently 5.4%, which is higher than it was during the credit bubble of the mid-2000s, but well below its levels in the 1960s, '70s and '80s.

Spending absent from the debate

In Washington, the Durbin amendment has long been viewed as a zero-sum game between banks and retailers: Congress can either satisfy merchants by keeping the price ceiling in place, or it can fulfill the wishes of banks by repealing the five-year-old regulation.

Lobbyists on both sides of the debate have not shown much interest in studying how the price ceiling has impacted consumers' spending habits.

After all, banks and retailers both make a lot of money from credit cards, and they do not have a lot to gain by casting their increased use in a negative light.



Duncan at the National Retail Federation acknowledged that some of the recent growth in the use of credit cards may be attributable to the Durbin amendment, but he also pointed to other factors, and said that credit card use was already on the rise prior to October 2011.

He also took issue with the notion that credit cards cause consumers to spend more. He noted that consumers typically use credit cards to buy bigger items but added, "That doesn't mean that the credit card causes the higher purchase." **ISO**

COMDATA'S PAYMENTS APP TACKLES FEDERAL TRUCK DRIVING RULE

Payments increasingly are the anchor connecting diverse business functions, including in the commercial trucking industry, where tools built into fleet card apps are helping to cut costs and paperwork for fuel taxes, workplace safety and other functions.

The latest example is Comdata Inc., which announced a partnership this month with KeepTruckin, a San Francisco-based startup that that provides electronic logging device (ELD) services for trucking companies to track the hours drivers spend behind the wheel.

This technology can help comply with new federal safety mandates.

Through the connection to KeepTruckin, users of Comdata's MyFleet Program fleet card app may directly buy and manage ELD services from KeepTruckin to automatically track drivers' duty records, backed up by GPS data, said Terrence McCrossan, a senior vice president with Brentwood, Tenn.-based Comdata.

The GPS element from KeepTruckin also improves Comdata's fuel tax-management service within MyFleet Program, according to McCrossan.

ªLinking with KeepTruckin ties together several things we already offered, so now we can marry drivers' fuel transaction data with where and how far they drove, improving processes,º he said in an interview.

The majority of the trucking industry is comprised of smaller firms and most of these have not yet adopted ELD technology, McCrossan said.

MyFleet Program, which launched in November 2016, supports fleet card pricing, controls and record-keeping for fuel purchases, along with discounted lodging through a partnership with CLC Lodging and access to capital through Crestmark Bank.

The Federal Motor Carrier Safety Administration in late 2015 announced its final electronic logging device rule requiring commercial truck and bus drivers to track the number of hours spent driving during each shift beginning in December 2017.

The possibility still exists that a fresh legal challenge to the rule could crop up before the end of the year, when most trucks are required to comply.

An association of independent drivers challenged the rule last year, but a U.S. Court of Appeals for the Seventh Circuit upheld it in an October 2016 ruling. The independent owners still have an option to appeal that decision to the Supreme Court.

How Blispay Lives Between Financing and Cards

BY KATE FITZGERALD

As mobile e-commerce grows, more online merchants are adding instant credit options like PayPal Credit and Klarna, giving consumers more ways to finance large purchases separately from using a credit card.

Blispay, a Baltimore, Maryland-based consumer finance startup, wants to push this concept further but stops short of offering a full-fledged store-branded credit card.

For more than a year, Blispay has been quietly expanding its smartphone-based instant-credit app, enabling shoppers to borrow significantly more money than the amount of a sought-after item, and providing the extra funds in the form of a Visa account.

The program behaves almost like a store-branded card, but without the physical plastic.

It is designed in a way that would appeal to the many small or midsize stores that don't want to run their own credit programs.

Since the funds come not from the store but from Blispay, it gives merchants a way to provide credit to drive sales at no risk, said Greg Lisiewski, Blispay's founder.

Lisiewski previously worked at Bill Me Later before it was acquired by PayPal in 2008, and this experience helped him spot untapped opportunities in consumer credit.

"Blispay solves two sides of the credit problem, by providing credit to stores that don't have the in-house financing options of a big-box store and by giving consumers a versatile line of credit for purchases they don't necessarily want to put on their everyday credit or debit card," Lisiewski said.

Merchants supporting Blispay make no technical changes; they simply promote Blispay at the point of sale or on their website with signs or a button directing buyers to apply via Blispay's mobile website.

"Blispay solves two sides of the credit problem," says founder Greg Lisiewski.

Applicants are prompted to provide basic information, including their name, email, address, birthdate and Social Security number.

The service, targeting customers with healthy credit scores, also asks applicants to create a password before they can be approved.

Approval takes three to five minutes, producing a 16-digit virtual Visa credit card number that appears on the consumer's smartphone within the Blispay app, which can be used immediately to complete a purchase.

Blispay typically approves loans of $199 to $10,000, depending on the customer's credit score.

Those who qualify may use the Visa virtual account number anywhere, up to the credit limit and Blispay subsequently mails the borrower a physical Visa credit card for greater convenience.

Blispay charges no interest for the first six months; the interest rate on loans repaid after six months is 19.99%. Blispay customers also earn 2% on all purchases, which is provided as a credit applied back to their account, Lisiewski said.

Utah-based First Electronic Bank issues Blispay's Visa cards and funds the initial purchase; Blispay immediately buys the loan from the bank and sends monthly bills to customers.

"Blispay works just like a store loan, except we're the lender and the vehicle for managing the funds is a Visa card, so consumers can use the credit line all over town instead of opening up a separate credit line at several stores," Lisiewski said.

Merchants that have adopted Blispay include sporting equipment website retailer Evo, the online luxury handbag resale site Trendlee and Laura's Home & Patio, a home goods store in East Northport, N.Y.

Blispay opted for Visa, because of its ubiquity, and Lisiewski doesn't expect to add other network options in the foreseeable future.

Since its launch, Blispay borrowers have used its credit at 50,000 online and brick-and-mortar locations to fund purchases of items ranging from airline tickets to household goods, according to Lisiewski.

"Our product is an option for people who are making an unusual purchase that they want to finance apart from everyday expenses, like buying a good bicycle or a wedding dress or a trip," Lisiewski said.

"The Visa card gives them flexibility for making purchases at places that wouldn't otherwise offer financing," he said.

The 25-person company, which received $12.75 million in seed funding last year from FirstMark Capital and others, will soon expand to a major regional retail chain and also is negotiating for additional equity and to expand its debt function, Lisiewski said. **ISO**

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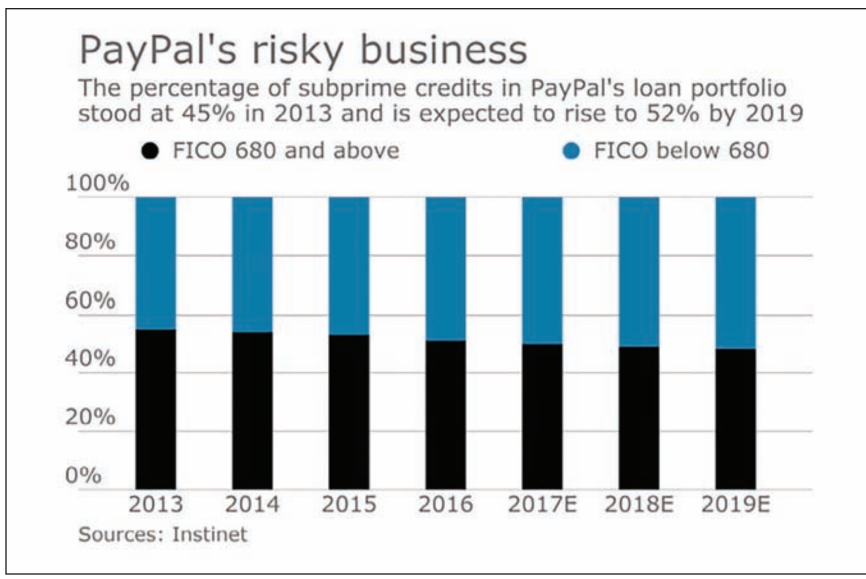
PayPal's Retreat from Subprime

PayPal's credit business generated a lot of money while it was an eBay subsidiary. But as an independent company, PayPal is looking to change course. **BY KEVIN WACK**



At the height of the panic in late 2008, PayPal Holdings made a counterintuitive move: It entered the subprime lending business. And disproving the naysayers, the payments giant built loans of last resort to online shoppers into a lucrative business.

Since 2013, the San Jose, Calif.-based PayPal has generated an estimated $575 million in earnings from its consumer lending business, PayPal Credit. Shoppers who max out their credit cards frequently use the product to finance big-ticket online purchases.

But now PayPal, which was spun off from eBay in 2015, is looking to reduce its footprint in consumer lending.

While the firm will continue offering PayPal Credit to consumers, it has hinted that is exploring options to reduce its exposure to souring loans. Close observers of the company have floated different possibilities, including a sale of all or part of the PayPal Credit portfolio, as well as a deal in which a partner agrees to fund all future loan originations.

The shift, which comes at a time when fewer PayPal Credit borrowers are paying on time, may be motivated in part by the prospect of rising losses. It could be a harbinger of tougher times for the subprime credit-card industry, which has boomed in recent years. Earlier this month, a credit-card unit of the British bank Barclays PLC reportedly agreed to sell off $1.6 billion in subprime card balances.

PayPal relies much more heavily on borrowers with damaged credit histories than large card issuers such as JPMorgan Chase and Bank of America, and even Synchrony Financial, which has a substantial subprime business, analysts at Instinet noted in a recent report. At the end of last year, borrowers with credit scores below 680 owed 49% of PayPal Credit's loan receivables.

The Instinet report urged PayPal to shed or significantly reduce its credit risk, in order to avoid big losses in a scenario where unemployment rises and credit conditions deteriorate. "The valuation of any business with credit exposure gets crushed in that kind of environment," the report warned.

Back in October 2008, PayPal agreed to pay roughly $945 million in cash and stock options for a firm called Bill Me Later, Inc., which offered financing for e-commerce purchases, and had deals with Amazon, Overstock and Zappos, among many other online retailers. In 2014, the Bill Me Later service was rebranded as PayPal Credit.

PayPal offers the product with specific retailers as part of the online check-out process. Once borrowers get approved, they have access to a revolving credit line of at least $250.

The product, which is available both in the U.S. and internationally, can

benefit savvy shoppers. But it can also turn into an expensive form of credit.

PayPal offers interest-free financing on certain purchases when borrowers repay the full amount within six months. But when consumers fail to pay off the loan in time, PayPal charges an annual percentage rate of 19.99% that gets applied retroactively, back to shortly after the purchase was made, a practice that has come under fire from consumer advocates.

In recent years, PayPal Credit has helped to power the company's strong earnings growth. Today, roughly 6% to 7% of the firm's revenue comes from PayPal Credit, and it accounts for a similar percentage of total profits, said Lisa Ellis, an analyst at Bernstein Research.

PayPal Credit's value to the company's shareholders goes beyond the income it generates, since the product generates more spending on the PayPal network.

Many shoppers who use PayPal Credit do not have other payment options. PayPal has stated that merchants who adopt the product see a 20% to 30% lift in total payment volume.

"The lending business is a strategic business for PayPal," said Gil Luria, an analyst at D.A. Davidson & Co.

At the same time, credit quality is a growing concern. PayPal's consumer lending business reported a net charge-off rate of 6.4% at the end of 2016, up from 5.9% one year earlier. Loans and interest receivable that was more than 90 days past due rose from 3.9% to 4.1%.

When it comes to borrowers' likelihood to repay, PayPal faces a structural disadvantage versus issuers of cards with Visa and Mastercard logos. Since such general-purpose credit cards can be used for far more purchases, borrowers have an incentive to pay those bills first.

"Cash-strapped consumers facing difficulty meeting their financial obligations would likely view the limited utility of PayPal Credit as an excuse for placing it at the bottom of their repayment priority list," Instinet wrote.

PayPal executives have indicated that they are exploring ways to reduce the company's credit exposure.

"We are in the early process of looking through this right now," CEO Dan Schulman said during a Jan. 27 conference call. "It is a very competitive process out there as people look to potentially partner with us. We will look to make a decision as we digest and sort through all the different proposals that we are seeing."

PayPal is expected to announce its plans this year, analysts at Deutsche Bank said in a March 10 research note.

Worries about credit quality are not the only reason that PayPal might want to scale back its presence in the consumer lending business.

The product has generated regulatory problems for PayPal. In 2015, the company agreed to pay a $10 million fine and $15 million to consumers after being accused of enrolling customers in PayPal Credit without their consent and deceptively advertising promotional benefits.

There is also the fact that investors typically assign lower valuations to lending businesses than they do to payment networks or tech companies.

Nonetheless, this year is looking like an auspicious time to scale back in the subprime consumer credit business, said Nick Clements, a former credit-card industry executive and the co-founder of MagnifyMoney.com.

He noted that subprime credit providers made big profits in the wake of the financial crisis, when mainstream card issuers were seeking shelter from the storm. But since then, competition has picked up substantially.

Last year, subprime accounts made up 21% of the U.S. credit-card industry, up from 18% in 2014, according to the rating agency DBRS. ISO

VISA, AMAZON TEAM UP TO DELIVER COMMERCIAL CARD DATA

Visa has formed a new partnership with Amazon to provide Visa commercial card customers with a comprehensive view of transaction data from Amazon Business purchases.

Visa's U.S. commercial card customers at supporting banks may now search, compare and buy products from various suppliers on Amazon Business, with the ability to track and analyze purchases using full line-item details, Visa said in an April press release.

Bank of America Merrill Lynch, Citi and PNC Bank are the first three banks to offer the new service to customers who use Visa commercial cards to buy supplies from Amazon Business, with the goal of enhancing end users' ability to manage expenses.

Benefits include tools to track multiple shipments and purchases on a single account and the ability to customize accounts by allowing multiple users and establishing spending limits, with free two-day shipping on orders of at least $49.

"Tracking and reconciling online purchases made with commercial cards can be a time-consuming task, and at Visa we are constantly looking for innovative ways to simplify the process," said Vicky Bindra, global head of products and solutions at Visa, in the release.

The new service supports straight-through processing, which is becoming a requirement for many businesses, said J. Christopher Ward, executive vice president and head of product management for PNC Bank treasury management.

Grab's Digital Business Model Makes Room for Cash

BY DAVID HEUN

Singapore-based ride-sharing company Grab is looking to expand its reach in Indonesia through its acquisition of Kudo, an e-commerce platform for unbanked consumers that could complement Grab's own digital payment platform and provide even more cash options.

Consumers in Southeast Asia seeking rides from a taxi or private driver are likely to do so through Grab, the region's answer to Uber or Lyft. But the irony of the ride-sharing boom is that, in providing a long-overdue modernization of the way drivers accept payments, it seeks to digitize payments even though a cash option remains in the process.

Kudo, which is based in Jakarta, brings a cash option to the forefront for those shopping online. Consumers without bank accounts or cards can use Kudo to purchase goods or services online, then make cash payments to a local Kudo agent.

Kudo's network of 4,000 agents covers 500 towns and regions across Indonesia and has more than 5 million active customers.

It's a similar model to the recently announced Amazon Cash, as well as older offerings such as Walmart's Pay with Cash, PayPal's MyCash Card or PayNearMe.

Grab claims its GrabPay mobile payment service is growing and Grab has 95% market share in Singapore's ride-hailing industry. In obtaining Kudo as part of its overall $700 million "Grab for Indonesia" 2020 master plan, the company seeks to bring financial inclusion to the forefront through its various mobile payment offerings.

"Indonesia is one of the most promising and fastest growing ecommerce and cashless payments markets in Asia, but there is a clear need for more flexible and tailored cashless payments solutions," said Ming Maa, president of Grab.

About 175 million Indonesians are classified as middle class, yet the majority of people are unbanked or underbanked, particularly in non-urban areas, Maa said. "Kudo has created a truly unique solution to the challenge of serving this massive, underserved market."

Currently, Grab users have various mobile options to choose from including GrabTaxi or GrabCar, or simply having GrabPay on their phones with a linked card or account to make payments at participating retailers. Top-up options such as GrabPay Credits and a loyalty program called GrabRewards in which points are earned for each Grab ride also exist.

"GrabPay represents a huge market opportunity for us, and it's something we think we are uniquely positioned to bring to the table," Maa said. "Across the region, there remains large potential for cashless payments solutions to increase from their small scale today."

Because GrabPay is the largest high-frequency mobile app in Southeast Asia, the company is in a good position to leverage it through Kudo.

"Our goal is to make it as easy as possible for users to adopt and integrate GrabPay into their lives," Maa said. "Whether that's working with major local banks or integrating with existing local services."

Grab recently announced that Jason Thompson, a former executive with Euronet, will head Grab's payments strategy team to increase mobile payments services across the region.

The company's master plan calls for an initial focus on serving smaller cities and communities not yet involved in a digital economy, Maa said.

Meanwhile, other taxi payment providers are shifting their strategies.

Verifone, for example, is combining its two U.S. taxi payment apps, Way2ride and Curb.

The addition of Curb, an e-hailing app maker Verifone bought in late 2015, will immediately add advance booking to Way2ride's taxis.

Verifone is also upgrading the screens that appear in the back seats of cabs in New York, where it has the contract to provide payments for about half of the city's cabs, and 65 other U.S. cities to accommodate third-party apps. **ISO**

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Plenti Gets Its First Grocery Store

The Plenti multi-merchant loyalty program has finally added a grocery store, opening up a new avenue for the platform's growth. BY DAVID HEUN

The Plenti loyalty program unfolded two years ago with a new twist on plastic card-based rewards—a multi-merchant coalition in which participants were given exclusivity within their market and consumers could earn points at one retailer and redeem them at another.

Plenti has grown under the watch of American Express management to the tune of 36 million shoppers making use of the program in the past year, but it had its share of early confusion among consumers who questioned its deliberate lack of merchant participants.

In securing Southeastern Grocers LLC as its first grocery participant, Plenti now has a mix of basic life essentials to offer consumers through its gasoline, grocery, clothing and pharmacy retailers, among others.

Though Plenti still promises merchants exclusivity within their category and region, the addition of Southeastern Grocers will add 700 more store locations and potentially millions of consumers to the program, said Josh Berwitz, president of U.S. loyalty for American Express.

"We expect Southeastern Grocers will add significant scale and Plenti membership around the southeast," Berwitz said. "They have a strong and loyal customer base actively engaged in their loyalty programs."

The Winn-Dixie, Harveys, BI-LO and Fresco y Mas grocery chains operate under the Southeastern Grocers umbrella and will upgrade their own loyalty programs through Plenti, a process that began on April 5.

The presence of Southeast Grocers opens the door for the program to seek other major chains in other parts of the country, a move that would fall in line with Plenti's policy on exclusivity.

"The grocery category in the U.S. is highly regionalized, and Plenti expects to expand the coalition with new grocery partners over time in other regions across the country," Berwitz said. "We know many regional grocers are consistently evaluating loyalty and we believe our coalition model is especially appealing."

Because loyalty and rewards are so integral to grocery shopping, it is important for Plenti to not let the exclusivity rules get in the way of bringing on other chains in other parts of the country, said Brian Riley, director of card services for Mercator Advisory Group.

"Certainly within the grocery business you have companies that dominate certain regions and would not compete against each other," Riley said. "In that case, there is no reason to limit the participants in the program."

Any loyalty program would benefit from having supermarkets on board because "there's significant spend there, north of $4,000 per household annually," Riley said.

Plenti members include American Express, AT&T, Exxon Mobil, Macy's, Nationwide, Rite Aid, Direct Energy, Enterprise Rent-A-Car, Hulu, Expedia and Chili's Grill & Bar.

In addition to managing the program, American Express two years ago created a cobrand Plenti credit card as a payment option for consumers participating in the program.

As with many new programs, consumers offered mixed reviews for Plenti when it first came on the scene in 2015. Many were confused about how to earn and redeem points, saying some merchants had caveats about use of the rewards at their stores.

Some also complained about the registration process in which another card had to be linked to the shopper's Plenti card.

"It's a great idea and it has American Express behind it, but they missed some practical applications early on it to make it easier for users," Mercator's Riley said.

Still, members have so far earned more than 40 billion points, translating into at least $400 million in value, and have redeemed more than 90 million offers, Berwitz said.

Plenti has also made some adjustments in creating the Plenti Online Marketplace, where members can shop online and redeem offers and earn extra points, while participating merchants have established special deals within their stores to provide more Plenti points at any given time on certain available products.

In addition, Plenti does not rely solely on the presentation of a plastic membership card.

The Plenti app allows users to store their virtual Plenti card in iOS and Android wallets.

Users can also provide a phone number instead of the app or membership card as a Plenti ID. **ISO**

McD's Tricky Mobile Strategy

A lot of restaurants have an appetite for mobile ordering, but it's a tricky service to get right.

BY KATE FITZGERALD

The plan McDonald's Corp.'s revealed this week to add mobile order and payments to its app and roll the service out to 20,000 of stores is overdue, but fraught with risk, analysts say.

Customers will be able to place orders via McDonald's mobile app for pickup at the drive-through, curbside or inside the store, where a kiosk will recognize their profile with stored payment methods and order preferences, McDonald's CEO Steve Easterbrook announced at the company's Investor Day meeting.

The moves aren't unexpected—McDonald's signaled a new commitment to mobile last year as part of a broad turnaround plan—but specifics of the mobile order and payment strategy underscore challenges the company is likely to face.

Mobile order and payment already is transforming the retail landscape, with dramatic effects for quick-service restaurants companies like Starbucks, Dunkin Donuts and Panera Bread Co. reporting strong demand as soon as the feature launched.

But the logistics can be tricky. Starbucks has a long head start over McDonald's with years of success with its mobile payments app, and in January the coffee giant disclosed that it wasn't completely prepared for the popularity of its mobile order and pay service that rolled out last year, and bottlenecks resulted that hurt its same-store sales.

"McDonald's pioneered the shift from drive-in burger stands to drive-through fast food, and that heritage could be leveraged for order-ahead, but it could also be their boat anchor dragging them down," said Richard Crone, a principal with Crone Consulting LLC.

Shifting to a mobile-first focus is inevitable, Crone said, but McDonald's has some unique hurdles to overcome.

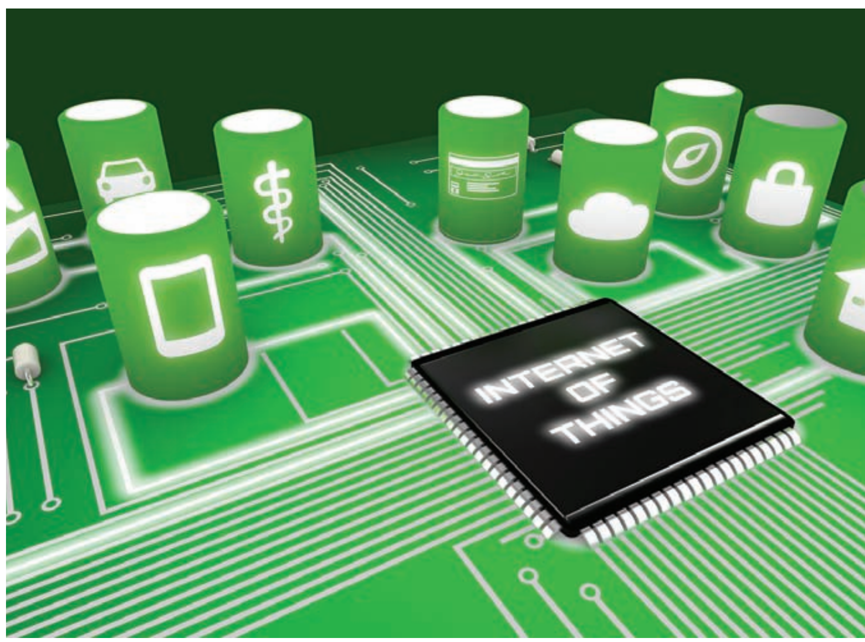
"McDonald's will have to make major changes in its infrastructure and reengineer its processes, procedures and retrain people, and the company will probably need to rethink how it handles its drive-through lanes for customers who want to pick up and go, versus the over-75 crowd that won't order ahead," Crone said.

Much of this is uncharted territory for McDonald's compared with Starbucks, whose mature mobile app relies on sophisticated algorithms and machine learning to constantly refine and adapt its systems to streamline store processes and customer experience, Crone points out.

McDonald's has already fumbled with mobile payments, being slow to embrace the trend and making iffy forays into new technology. Last year McDonald's tested Google's Hands Free payment app at 47 U.S. restaurants; that test has been discontinued, accordign to sources. **ISO**

The Security of Connected Tech

As more interest grows in the Internet of Things, more opportunities arise to tame this new frontier of emerging technology. **BY KATE FITZGERALD**



No one knows exactly what the Internet of Things will look like in five years, but forecasters predict more than 20 billion devices will be connected, and Trustonic is sure fraudsters will come along for the ride.

U.K.-based Trustonic is planning to counter that fraud trend by creating a hardware security approach for IoT devices based on a "trusted execution environment" (TEE) that works like a fortress to protect sensitive data from the mass of ever-evolving threats to software from intrusions and malware.

The concept builds on the idea that payment credentials and other sensitive and confidential information must be protected within devices at their core—much in the way the secure element shields payment details inside an iPhone. But unlike the secure element model, Trustonic's TEE approach is designed to enable third-party access at any moment, while keeping data secure.

Targeting an expanding market of device manufacturers, service providers and app developers, Trustonic aims to monetize its services by supporting everything from simple, highly secure authentication methods including biometrics to managing tokens for high-value transactions, according to Andy Ramsden, Trustonic's product marketing director.

The main challenge—and it's a big one—is that Trustonic has to be foundational to every device it supports, with TEE built into each device at the factory level.

To ramp up, Trustonic for the last four years has been working with device manufacturers including Sony, Samsung and LG to embed its TEE technology within tens of millions of smartphones, recently hitting a milestone of a billion devices.

In addition to handsets, Trustonic is already embedding its technology in smartwatches with Samsung Gear, televisions via the Amazon Fire and certain auto manufacturers the company declines to disclose.

"We've laid a strong foundation with smartphones, and now we're moving to the IoT, connected cars and machine-to-machine arenas," Ramsden said.

Trustonic is hoping its investment will pay off as device makers find reasons to add secure payments to existing objects. While it's a speculative move, Trustonic says it has an edge because it's the only TEE permitting third-party apps to be provisioned after devices have been deployed, which will become a critical advantage for IoT devices that may have long lifespans and multiple users.

Banks, retailers and other organizations using Trustonic's TEE may beam sensitive data to handsets or other devices with secure keys protected by the TEE that could prevent a movie from being pirated or keep healthcare data safe from exposure, opening up rich commercial opportunities for device makers and digital applications, Ramsden said.

Trustonic has its work cut out, Ramsden concedes, as its business model largely depends on anticipating needs that haven't fully materialized and footing the cost of adding security to third-party equipment.

Provisioning applications when devices are already out in the market also introduces some complexity; typically a Trusted Application Manager (TAM) is required to access the TEE, but it's much simpler than the third-party systems needed to provision devices with an embedded secure element, according to Ramsden.

"We see a big future in providing the security for services offered by banks, government [and] enterprises across the IoT and for anyone else selling content like music or video, including studios and mobile network operators on devices after they're deployed," Ramsden said.

Analysts agree that some form of embedded, future-proof security will likely become essential for the IoT, especially in devices like major appliances, vehicles and equipment.

Amazon is already working with appliance makers to put its Dash purchasing system into dishwashers and laundry machines, for example.

"One of the challenges of the IoT is the lifecycle of the connected devices could be much longer than traditional technologies like smartphones," said Thad Peterson, a senior analyst with Aite Group.

"A connected device could be functioning for a decade or more if it's in a major appliance or embedded in an industrial setting. There's no way to know how fraud will evolve, but it's certain to be present and a powerful, future-proof security capability will be core for devices connected to the IoT," Peterson said.

Trustonic's business model isn't a simple one. Manufacturers contribute to the cost of adding Trustonic's TEE to handsets—Samsung uses it for the Knox security built into all of its Galaxy handsets—but Trustonic foots most of the bill, anticipating future revenue from licensing its services to a broad range of device makers, application developers and other organizations marketing content and data.

A current business for Trustonic is marketing its TEE services for banks and others looking to enhance security for Host Card Emulation (HCE)-based mobile payments, by combining its hardware approach with software.

"TEE security makes solutions like HCE much more resilient than software solutions alone could ever be, and it meets all the requirements needed for a tokenized payment solution such as HCE," Ramsden said.

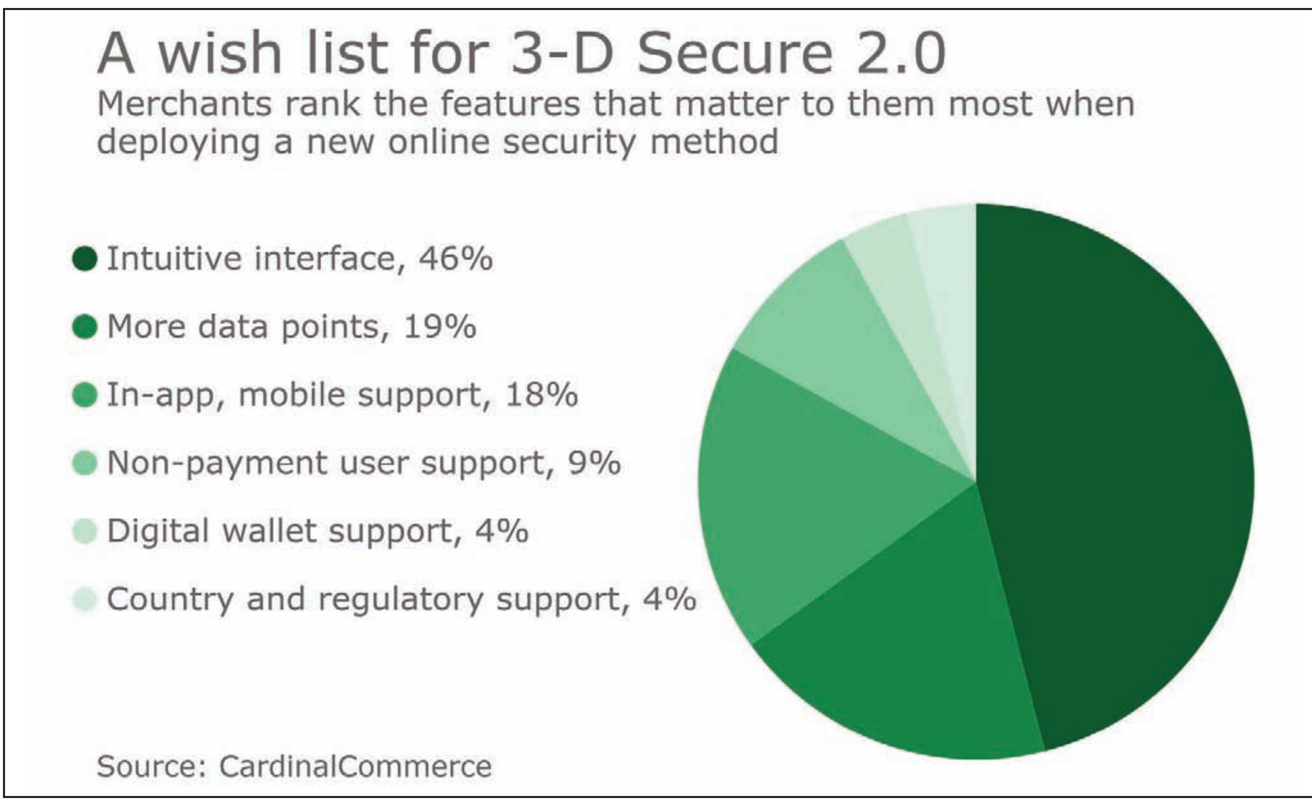
Trustonic may be operating in a market that hasn't fully evolved yet, but Ramsden predicts it will soon be commonplace for smart devices to rely on hybrid hardware and software solutions.

"The battle against fraud is ongoing, and when you consider the future need for constant software refreshes to stay ahead of the latest threats, the TEE approach may be simpler than many other routes," Ramsden said. **ISO**

Merchants Divided on 3D-Secure

As EMVCo works to improve the 3D-Secure system for protecting e-commerce, merchants are starting to warm up to the changes. But there are still those that need convincing.

BY KATE FITZGERALD



It's well accepted that the earliest version of 3-D Secure was off-putting to merchants and consumers who didn't like how it added friction to the checkout process in the interest of online security. The new version of 3-D Secure wants to avoid the same pitfall, and merchants are cautiously optimistic.

New survey data from CardinalCommerce finds merchants are hopeful that the designers of 3-D Secure 2.0 fixed a lot of these problems, but it remains to be seen how many will adopt it. More than half, or 52% of respondents said they would be likely to CardinalCommerce's own Consumer Authentication service next year when includes 3-D Secure 2.0, while 48% said they would be unlikely to use it, or had no opinion.

"Merchants indicated very specific preferences for features built into the new 3-D Secure that will make it more user-friendly, which suggests there's a lot of interest," said Tara Lavelle, CardinalCommerce's senior vice president of marketing.

The original version of 3-D Secure, introduced 15 years ago to fight e-commerce fraud, typically required consumers to provide an additional password to use their payment card during checkout. Merchants complained about many false positives and aborted transactions, negating 3-D Secure's benefits of blocking fraud and shifting liability for chargebacks.

The developers at EMVCo went back to the drawing board and finalized new specifications for 3-D Secure 2.0 last year to eliminate much of that friction by making the consumer verification process more streamlined, with more merchant control over declines. Card issuers are working now to implement the new version for merchants during the second half of this year.

To gauge industry interest in 3-D Secure 2.0, payment authentication provider CardinalCommerce asked hundreds of payments industry professionals about their expectations for the updated tool.

Nearly half, or 46% of respondents, said the most important feature needed in the 3-D Secure is an intuitive consumer interface that won't interrupt the consumer shopping experience unnecessarily.

About one in five merchants surveyed said they want 3-D Secure to provide more data points to make nuanced decisions about suspicious transactions, and 18% said they want the new version to support in-app, mobile and non-browser purchases, reflecting the rise in mobile e-commerce.

What's least important to merchants considering 3-D Secure 2.0 is support for specialized types of transactions, including proprietary extensions for different country and regulatory requirements. More than a third, or 37%, of survey respondents ranked those considerations as least vital for 3-D Secure.

CardinalCommerce conducted its survey in October and November of 2016 among hundreds of participants including merchants, fraud and e-commerce vendors, card issuers and card associations.

CardinalCommerce currently supports 3-D Secure's earlier version as part of its Cardinal Consumer Authentication e-commerce fraud prevention service, and the company plans to upgrade participating clients to 3-D Secure 2.0 it becomes widely available, Lavelle said.

Globally, 41% of merchants and 54% of organizations overall use or support consumer authentication programs, up from 49% of all organizations who said they supported it last year, according to the survey data.

Cardinal's own payment verification service, Consumer Authentication, which leverages existing 3-D Secure protocols, continues to be most popular outside the U.S.

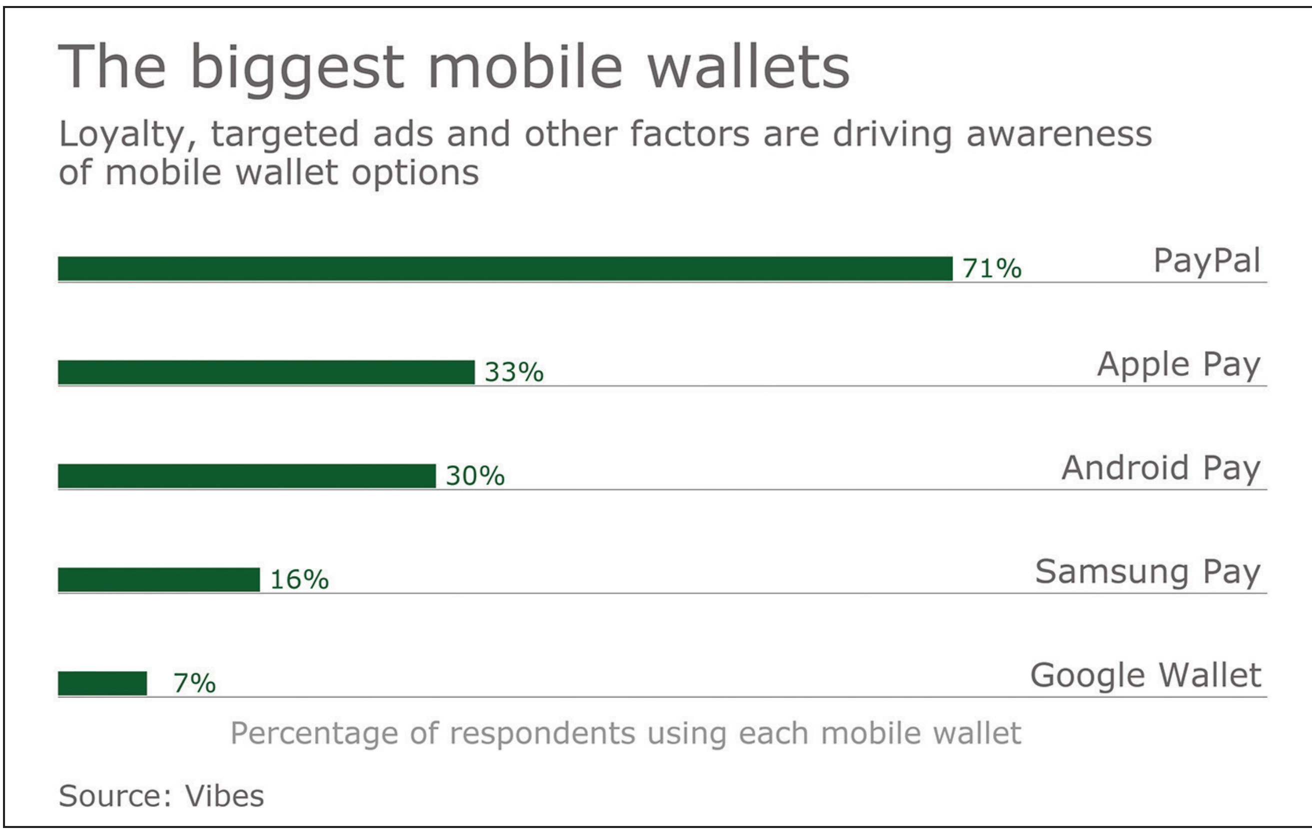
More than 57% of merchants participating in the survey in Africa use Cosnumer Authentication, compared with 50% in Eastern Europe and the Middle East; 49% in Europe; 48% in South America and 39% in both North America and the Asia Pacific region.

Verified by Visa and Mastercard SecureCode, which are both based on 3-D Secure, are far and away the most popular consumer authentication methods merchants are using today, at 84% and 78%, respectively, according to the survey.

Other methods include device verification directly from the merchant and Facebook logins, at 25% each, followed by email verification (22%), with declining numbers of other methods down to online PIN debit and American Express SafeKey at 3% each, according to the survey. **ISO**

How Mobile Is Winning Users

Mobile wallets have sometimes struggled to find an audience among consumers. Finally, shoppers are warming to the concept of smartphone payments. **BY DAVID HEUN**



Consumers are increasingly positive about loyalty programs, mobile ads, chatbots and making a purchase from a smartphone, despite an early resistance to changing their payment habits when mobile wallets debuted years ago.

"The mobile wallet is interesting in that people think of it first and foremost as a payments vehicle, after all 'Pay' is in the name of most of them," said Sophie Vu, chief marketing officer for Chicago-based Vibes, a mobile engagement consultant and researcher. But Vibes research reveals that consumers find convenience "in just having a mobile wallet to carry cards and coupons" while eliminating the need to carry plastic or cash, Vu said.

In a survey of more than 2,000 U.S. consumers from November 2016 to January 2017, 91% of respondents said they regularly participate in loyalty programs they have joined, and 70% indicated they had a more positive perception of a brand because it delivered digitized loyalty cards they could use through mobile devices.

Seventy-three percent of respondents said they noticed mobile ads on their phones on a weekly or daily basis, and of those, 32% said they tap on the mobile ad with a "purpose" in mind, to either learn more or potentially make a purchase. Only 10% said they never noticed these types of ads.

Of note to merchants and wallet providers is that 33% said they were "extremely likely" to make a purchase from their smartphone after clicking a mobile ad, with only 17% saying they would never do so.

In the prior year's Vibes report, 32% of respondents were already taking advantage of the non-payment portion of a mobile wallet by storing coupons and offers.

That number increased to 38% in this year's report.

As for payments, PayPal ranked highest in popularity amongst respondents at 71%, Apple Pay had 33%, Android Pay 30%, Samsung Pay 16%, and Google Wallet 7%.

While the Vibes didn't ask respondents how many mobile payments they made, the rest of the research about loyalty and the desire to make a purchase from a mobile ad doesn't necessarily translate to more in-store payments with smartphones.

"There is still a lot of education that has to happen to increase mobile payments," Vu said. "You don't really see it anywhere anymore on commercials or billboards. You just have to go up to the POS counter, where you maybe find out if they accept a mobile wallet or not."

Consumers are not inclined to take too many steps to be able to use their smartphone for in-store payments, Vu said.

"You have to think of the whole ecosystem for it, with the POS being enabled for it, and the mobile device communicating with that POS," Vu said. "There are just a lot of moving parts."

Mobile wallets can also become superfluous on a phone, Vu added. "Just like having hundreds of apps on the phone, if I have 30 different mobile wallets on my phone it becomes overload and defeats the purpose of it." **ISO**

Amazon Cash Meets Apple Wallet

Amazon won't be the first company to let the unbanked shop online by accepting cash at partners' stores. But it is still a pioneer in how it packages the service. BY JOHN ADAMS

Amazon is lending its considerable brand and heft to a cash payment model that borrows a vital piece of real estate from Apple Pay.

Called Amazon Cash, the feature allows cash-carrying consumers to add funds to their Amazon.com balance by presenting a bar code to a cashier at a network of partner retailers. Users tell the clerk how much cash to add, between $15 and $500 at once, and the funds arrive instantly in an Amazon.com stored-value account.

Systems like this are not new, and earlier models relied on consumers setting up a cash load online and then presenting a printed receipt, as was the case when Walmart introduced a similar service in 2012. Amazon's twist is keeping the experience decidedly digital, allowing consumers to store a reusable Amazon Cash bar code in Apple's wallet app or on the home screen of Android devices.

Amazon Cash debuted in April in the U.S., and the initial retailers include CVS, Speedway, Sheetz, Kum & Go, D&W Fresh Market, Family Fare Supermarkets and VG's Grocery.

Besides bearing similarities to Walmart's Pay with Cash service, Amazon Cash also resembles PayPal's MyCash card, which charges a nominal fee upfront for digital in-store prepaid loads to PayPal's account, and is a major part of PayPal's efforts to build a market among underbanked consumers. The key differences for Amazon: There are no consumer fees, and there is no physical card.

"It's a bit of a defeat for PayPal, which is increasingly catering to the needs of the unbanked and would had loved to do a deal with Amazon to enable the unbanked to purchase there," said Rick Oglesby, president of AZ Payments Group.

Amazon Cash also shares traits with PayNearMe, which works with a similar network of retailers but markets its service more for bill payment than e-commerce. Amazon's service could also be an alternative to prepaid card companies such as Netspend and Green Dot, whose products can give unbanked consumers access to e-commerce.

"Amazon's service is open to anyone who has a mobile phone," said Richard Crone, a payments consultant. The system adds authentication through the phone credentials, the Amazon login and the consumer showing his or her phone at the retailer, he noted. "It pushes the entire prepaid market to up its game."

Amazon can also pair the program with its strategy to build a brick and mortar footprint by tying some elements of traditional retail with its e-commerce brand. Amazon is building Go, an experimental store that doesn't require a checkout, instead using in-store sensors to charge a user's Amazon account for in-store shopping. Amazon is also opening a chain of bookstores, and is expanding its distribution and fulfillment network in the U.S.

Amazon did not reveal terms of its deals with retailers, and did not return a request for comment by deadline.

The launch of Amazon Cash comes at an unwelcome time for the traditional brick-and-mortar industry, as Amazon becomes larger than most big-box chains combined, and many big-box chains face traffic slumps and closures.

"Consumers can access to Amazon for whatever you want to buy. And if Amazon takes this to its move to open stores, they can squeeze out even more," Crone said. "It would be like Trader Joe's for Amazon." **ISO**

First Data's Role in Digital Gifting

The market for gift cards is still deeply dependent on plastic. First Data's agreement to form a joint venture with Fleetcor aims to shift the balance to digital. BY KATE FITZGERALD

Today, less than 10% of all gift cards sold in the U.S. are digital. That could start to change, as the industry's heavy hitters break down the walls between their plastic and digital gift card operations to spur global growth.

First Data, a major force in U.S. closed-loop gift cards, recently made a decisive move to accelerate digital gift card growth by forming a joint venture with Fleetcor, combining the two companies' respective physical and digital gift card assets into a single unit.

The deal had market advantages for both sides, analysts say. First Data is already a major gift card provider in the U.S., plus it has significant digital gift card assets in Gyft and Transaction Wireless, two companies it purchased within the last few years.

Fleetcor, a major player in fuel cards and payroll cards, two years ago picked up Stored Value Solutions (SVS), a key player in business-to-business digital gift cards and international markets, when it purchased fuel-card giant Comdata for $3.45 billion. While SVS may not mesh perfectly with Fleetcor's other holdings, it dovetails nicely with First Data, which has robust credit and merchant processing operations outside the U.S. but lacks an international gift card footprint.

"This joint venture is a way for First Data to make additional revenue from the acquisitions of Gyft and Transaction Wireless, by using the original model of the two companies as third-party providers," said Ben Jackson, a director of prepaid cards at Mercator Advisory Group.

"We think the gift card market is getting ready to move to the next generation, where digital technology will play a bigger role," said Barry McCarthy, First Data EVP and head of network and security solutions.

"And for Fleetcor, the deal gives them a way to make sure their gift card clients stay happy and have all the services they need without making other major investments," Jackson said.

It's still early in the process and the joint venture has no name, but the agenda for the venture is beginning to take shape, said Barry McCarthy, First Data's executive vice president and head of network and security solutions.

"The rationale for this deal is we think the gift card market is getting ready to move to the next generation, where digital technology will play a bigger role with the growing base of younger consumers who are focusing on mobile e-commerce and corporations integrate gift cards more deeply into marketing and loyalty operations—it's a natural evolution," McCarthy said.

Bottom-line considerations also drove the deal, as aggregating First Data's various gift card properties together with those of SVS also could cut operations costs significantly by centralizing processing, distribution and fraud management, McCarthy said.

First Data has invested heavily in machine learning and over time the company plans to leverage those resources into the overall fraud management for all operations within the joint venture.

"Initially it will be business as usual, but as we consolidate more of the elements of the joint venture, we'll have a larger pool of data to leverage with machine learning to get a better handle on gift card fraud," McCarthy said.

Funneling digital gift card brands through a single processing hub also will open up new promotion and marketing channels for the joint venture's corporate clients, McCarthy said.

Digital gift cards offer vast distribution efficiencies for brand marketers versus the cost of manufacturing and handling plastic gift cards, McCarthy said.

When a $100 gift card is sold inside a gift card mall like those at supermarkets, the brand on the card's face ends up paying about $4.50 altogether for distribution costs, according to McCarthy. "That's a huge expense for a retailer to take on, and one we think is ripe for improvement."

Digital gift cards also provide opportunities for new types of promotions that more companies are embracing.

One example is First Data's evolution of the popular "Never Ending Pasta Bowl" promotion for Olive Garden, from plastic to digital gift cards. Initially promoted only with plastic gift cards at restaurants, First Data within the last year enabled Olive Garden to launch the promotion via an online "flash sale" using digital cards. Olive Garden's inventory of 50,000 cards for the unlimited pasta deal sold out within seconds of going live during the latest round, McCarthy said.

First Data isn't the only gift card company working to aggregate digital gift card brands for better efficiency. Blackhawk Network in December 2016 launched Hawk Commerce, a comprehensive solution enabling marketers to plan, distribute and manage traditional and B-to-B gift cards and electronic gift cards through a single channel.

Blackhawk also sees big opportunities from its partnership with Apple Inc. which supports direct integration of traditional and electronic gift cards, loyalty and rewards programs into Apple Pay, said Teri Llach, chief marketing officer for Blackhawk Network.

"Due to the breadth of our product offerings and distribution channels, we face a number of competitors across different business sectors domestically and internationally," Llach said.

Plastic gift cards will continue to be a strong piece of the company's operations, Llach said. Thus, it's likely to be a long journey to the point where digital platforms dominate the gift card industry.

"Some people will always stick with a physical gift card, while others may adopt digital gift cards where they might not have purchased one before because the new channel makes it easier to use," said Mercator's Jackson.

"It's not always a zero-sum game with plastic." **ISO**

HOW ACCULYNK WON FIRST DATA'S ATTENTION BY BEING DIFFERENT

When most of the payments industry was working to find a way to accommodate the Durbin amendment's routing rules for EMV debit cards, First Data acquisition target Acculynk had its attention focused elsewhere.

The company already had an e-commerce method in place for dual authorization transactions at that time, and Acculynk CEO Ashish Bahl, who initially got involved in the various alliances and conflicts governing debit routing and real-time payments, figured out fairly quickly that the best strategy was to simply play a different game.

"I made the executive decision that this was not a good use of our time, as we were trying to get so much done in a short period of time," Bahl said. "We had a consultant monitor it for us and if anything noteworthy came up, we would be in a position to participate. We had a patent portfolio to bring to the table that would be more than the average participant."

That sort of focus, from about 2011 through 2014, allowed Acculynk to set up several clients — from independent debit networks to financial institutions, merchants and airlines — with the PaySecure online PIN debit service.

And First Data took notice, recently announcing a deal to acquire Acculynk and its key technologies of PaySecure routing, Payzur P-to-P payments and electronic payments for municipalities.

First Data has been active with Acculynk for several years, including having executive Mark Herrington join the Acculynk board in 2012.

To be sure, First Data and Acculynk have had much more in common the past decade than both being based in the payments hub of Atlanta.

"The biggest pain point with our merchants has been the cost of payment acceptance, and now we have a unique and secure way to provide low-cost routing for them," said Chris Foskett, executive vice president and head of corporate and business development at First Data.

Initially, First Data will integrate Acculynk products into the services for enterprise clients, targeting the large corporations, banking and government clients.

"Maybe down the road, Acculynk technology could become a feature within Clover Online or Clover [point of sale] products, but for now it will become the integrated offering across our acquiring solutions," Foskett said.

Currently, Acculynk can accept Visa and Mastercard transactions in the U.S. and route them over the PIN rails on a PINless basis, saving the likes of Square and Uber a lot of money on switching fees.

But with First Data's global presence, Acculynk would be able to additionally connect to foreign debit networks in markets such as Australia and India.

"In many of these foreign markets, like Latin America or Asia-Pacific, credit card acceptance rates are very low," Bahl said. "But the government mandates have put debit cards in the hands of all of the bankable consumers, so that is part of our broader strategy and seems to be working well."

It's a strategy that has shifted since Acculynk first entered the payments technology arena in 2008 with its dual-factor authentication of presenting a "floating" PIN pad online during the transaction process. That technology, called PaySecure, especially looked like a slam dunk for Acculynk when talk of the EMV shift began to unfold.

As the Durbin amendment's fee caps and routing mandates took a lot of steam and economics away from PIN debit transactions, Acculynk continued to stress the advantages of PIN-less online transactions.

"We went to the same debit networks and convinced them to do single message PIN-less and dual message PIN-less acceptance and push payments," Bahl said.

Acculynk had worked on PIN-less online transaction technology for years, so it was a strategy that paid off, giving the company what it felt was a wise option to complement what was becoming a crowded e-commerce security arena with products like 3-D Secure, one-time passwords or PINs, and the floating PIN pad.

With PIN-less online transactions, the consumer essentially enters a PIN and, through a provider's technology, the keyboard converts that PIN to different numbers. While authorizing the user, it creates a sequence of numbers that are worthless if a fraudster were to steal data as it moved along a network or was in storage.

"Having Acculynk positions us to be ahead of the competition to offer technology around debit routing," Foskett said. "No one has a similar offering in the market today."

Investing in Connected Retail

Even if every consumer doesn't want to wear a smartwatch or high-tech glasses, there will be enough connected devices and wearables to make a difference. BY JOHN ADAMS

Wearable payment devices are cutting edge, fast and diverse. But they are not a steady, predictable or popular consumer trend.

Even so, investors see a rich opportunity to get involved in the market for wearables.

“There are going to be [50 billion] connected devices, and if you have an internet connection you can turn those devices into credit cards,” said Matt McCooe, CEO of Connecticut Innovations, a Stamford–based venture capital firm that recently participated in a $10 million financing round in Dream Payments, a Toronto-based financial technology company that uses the cloud to support a SaaS approach to the Internet of Things.

ªThere's work to be done to make this type of technology work and there are a lot of companies that want to make it work quickly,º said MattMcCooe, CEO of Connecticut Innovations.

What’s interesting about Dream, said McCooe, is its model assumes a proliferation of IoT deployments as companies figure out what types of devices, accessories or clothing connect with consumers. While everything — in theory — can be a credit card, not everything will be used as a credit card.

“One of the problems is you have the technology, but you don’t have the use cases,” said McCooe.

McCooe has previously invested in IoT and cloud technology, but this is his firm’s first investment in a startup that tries to ease deployments of IoT payments in

The market is already filled with a variety of IoT payment ideas. Disney’s MagicBand has been one of the most successful deployments, enabling payments, theme park entry and hotel room access. The wristbands reached 50% use in 2014 and underwent an upgrade in 2016. But a similar band didn’t work at HersheyPark, demonstrating that even in the same category, the strategy doesn’t have consistent success.

Elsewhere, banks such as Barclays and RBC are engaging in a variety of IoT tests, mostly to see what will stick with consumers.

But even efforts with big backers can have hiccups. Amazon’s connected “Go” store, which is designed to allow consumers to shop without a cashier, reportedly had trouble dealing with crowds. For McCooe, Amazon Go is an example of both the possibility and tough evolution tied to connected commerce.

“It’s kind of like an EZ Pass,” McCooe said.

“You go through a toll booth at 55 miles per hour and don’t stop to pay. In this case, you’re leaving the store without taking your mobile device or card out. There’s work to be done to make this type of technology work and there are a lot of companies that want to make it work quickly," he said.

Dream Payments, whose investors also include Toronto technology VCs Real Ventures and FairVentures, will use the new funding to expand outside of Canada to the U.S.

Its tech enables businesses to access cloud-based mobile point of sale technology that works on a wide range of connected devices and operating systems. Dream also has partnerships with TD Merchant Solutions, Intuit QuickBooks and TruShield Insurance.

Dream plans to work with merchant acquirers, which now have to face the rapid approach of IoT.

"There may be 15 million payment terminals in the U.S., but there may be billions of connected devices," said Brent Ho-Young, CEO of Dream Payments. "Acquirers are looking to see where they fit in."

But even if Dream has the resources and the ambition to expand, will be challenged to find a receptive audience in its new market.

"Dream appears to see an opportunity to expand its efforts into the U.S. market and it has the funding to do so," said Thad Peterson, a senior analyst at Aite Group, who adds the challenge is finding the right spots in the payment system to leverage its value. "There is a lot of smoke around Internet of Things payments right now, coming from nearly every category of service provider and while there's very little fire yet it will be a challenge for Dream to deliver a differentiable and actionable message to the payments community in the U.S." **ISO**

TO PROTECT DIGITAL PAYMENTS, UBS ADOPTS E-SIGNATURES

Switzerland's UBS is adopting an advanced type of digital signature technology, with a range of uses that include the capability to secure high-risk digital payments.

UBS is embedding digital signature technology developed by Cryptomathic and SwissSign into its e-banking system to augment its existing authentication system.

UBS is starting with wealth management and e-banking, which usually require customers to sign about a half dozen documents per year, but the bank expects the same technology can improve payment security by serving as an authentication factor.

"We want to remove steps and simplify processes for a number of our activities," said Philipp Kuhn, a project manager at UBS who is helping lead the e-signature initiative.

The underlying technology can be used to support payments use cases by adding an advanced form of digital signatures called XAdES signatures to an XML file that is ISO 20022 compliant, according to Cryptomathic and SwissSign.

There are also use cases for treasury management, invoicing and other processes related to the handling of payments.

"There are a lot of areas where we would need a signature equivalent, such as for fulfillment, where this would help us," Kuhn said.

"An e-signature can be good at establishing non-repudiation," said Matt Landrock, an executive vice president at Cryptomathic. "We can say for certain that the user intended to make this transaction."

Writing for PaymentsSource, James Gagliardi, a vice president at Digital River, argues digital signatures may be necessary to protect 'Internet of Things' transactions such as using remote buy buttons such as Amazon Dash that order household items such as toilet paper or soap; or to help secure payments for ride-sharing apps, where there is no exchange of a physical card or overt use of a mobile wallet.

Gagliardi argues a digital signature can add an extra layer with an extra step, though it's a small one for the consumer.

Naveen Jakhar, a government official in India who helps oversee the country's telecom industry, also argues that e-commerce can benefit from e-signatures, which provide a private key for the signer and a verification algorithm on the receiving end.

Jakhar's presentation notes e-signatures are transportable, cannot be imitated and are time-stamped. For e-commerce, a digital signature can verify the payment's sender because the digital signature key is bound to a specific user, according to Jakhar.

In this way, e-signatures can complement the use of EMV cards at the point of sale. EMV is an anti-counterfeiting measure, designed to assure that the person making the transaction is the only one who can use that payment instrument at that time.

With e-signatures, "the idea is to emulate what happens on a chip card," Landrock said.

In an oped for PaymentsSource, Guillaume Forget, director of product management for Cryptomathic, wrote the regulatory environment for digital signatures is improving, as new rules allow consumers and businesses to add e-signatures to document images, giving these the same legal status as paper-based documents.

"Electronic signatures, when properly implemented, can be very helpful in combating online payments fraud," said Avivah Litan, a vice president at Gartner, and a security specialist, who notes there is some friction to the strategy.

First, the technology itself is complex. "There's a need to assign keys to senders and receivers, and both senders and receivers need to participate in the application for it to work properly," Litan said.

Also, the process of enrollment can be complicated, according to Litan.

"This is always the weakest link in any online security system," Litan said.

"Fraudsters can impersonate others or use stolen identities, at which point it doesn't matter if the payment transaction is carried out securely because at that point a fraudster is receiving the 'secure payment,'" she said.

VARs VISIONARIES

/ Q&A

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Focus on Technology and Specialization

Value-Added Resellers & Independent Software Vendors continue to up their game for ISO partnerships

By Lisa Joyce

The U.S. payments ecosystem is multifaceted, and a an increasing number of providers are competing for market share. For example, the value-added resellers (VAR) and independent software vendors (ISV) marketplace is highly fragmented, with more than 10,000 active developers, according to First Annapolis.

VARs and ISVs serve an important role in helping merchant acquirers and independent sales organizations (ISOs) make sense of a complex web of payments processing moving parts. But for those acquirers and ISOs that serve small and mid-sized merchants, VARs and ISVs are particularly critical.
While large merchants typically have internal IT departments to

Continued on page A6

Adapting to Change: How VARs and Agents Can Capitalize On It

Cayan® provides agents and VARs with a real competitive advantage. With our unique combination of payment processing, payment technology and a variety of leading point of sale systems, Cayan enables VARs and agents the flexibility and control to easily design, install, maintain and support bundled solutions that meet the specific requirements of each merchant customer.

John Buchanan, Director of Third Party Sales, Cayan

How is the relationship between VARs, agents and their merchant customers changing?
As technology evolves, merchants expect more from their VARs and agents—they want a valuable resource who will guide them into the future by recommending point of sale (POS) and payment solutions that work seamlessly together. For VARs and agents, it takes a lot to keep up with technology changes and determine which solutions work together and stand out from the crowd. But those that demonstrate expertise and provide a single source solution will differentiate themselves in a merchant's eyes.

Do merchant acquirers and payment processors need to readjust their models to account for VARs' and ISVs' increasing influence in merchant acquiring?
Traditional merchant acquirers and payment processors absolutely need to make adjustments, because they typically only offer payments. In today's environment, that isn't enough. More organizations are offering bundled solutions that include POS and payment processing, driving tough competition for VARs and agents. To remain competitive, VARs and agents should bundle payments and tablet-based POS together to provide merchants with the solutions they need.

As a payment technology company, Cayan provides secure, affordable payments and a range of leading POS systems that can be easily bundled.

What's the key to being successful as a VAR and agent?
VARs and agents are most successful when they offer all-in-one solutions with a tablet-based POS, payment processing and value-added services. With Cayan, they can sell a variety of innovative POS solutions, in addition to traditional payment processing, providing the all-in-one solution that meets merchants' specific needs.

This is beneficial for all parties—the VAR or agent can add tremendous value for the merchant, thus creating stickiness and increasing revenue.

What are the biggest challenges VARs and agents are facing?
With many companies offering all-in-one payment and POS solutions, VARs and agents are facing tough competition. Plus, payment solutions are among the most complex technologies out there, and it's difficult to be an expert in every aspect of the field.

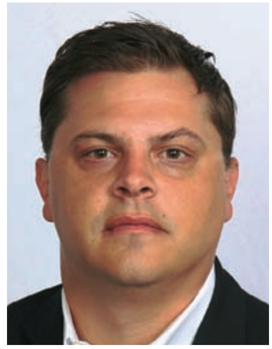
Cayan's approach of offering merchant acquiring, payment technology and a variety of POS systems empowers VARs and agents to customize a bundled solution that is easily installed and supported.

What's the best way for VARs and agents to achieve a simpler life?
Better partners. VARs and agents in today's environment can only thrive if they offer flexibility. Many all-in-one companies can't offer flexibility in their bundled solutions, and as we all know, each merchant has unique requirements. At Cayan, we enable VARs and agents to easily customize bundled solutions specific to their merchants' needs. We also realize that dedicated support is essential to everyone's success, as great support ensures simple implementation and ongoing maintenance. We make it easy for our VARs and agents to get their merchants up and running quickly and without any hassles. ■

Continued from page A4

manage the hardware, software, and services integration that merchants need to process payments, merchants with fewer IT resources are reliant on someone else to manage the integration, explains Jared Drieling, Director of Business Intelligence for The Strawhecker Group. Acquirers and ISOs are turning to VARs and ISVs for help in meeting these merchant needs.

"Merchant acquirers and ISOs need to evolve to new market demands and are looking to VARs and ISVs to provide a bundled package of hardware and software that works together for their merchant customers," says Drieling.



Jared Drieling
Director of Business Intelligence
Strawhecker Group

Technology and Niche Markets

"If you ask a payment provider what business they are in, many will say that they are in the technology business," says Drieling. To that end, VARs and ISVs are focusing on technologies such as data analytics. "Data analytics is a huge value added service," he says.

Jason Rupert, Senior Vice President and General Manager of the ISO Business Unit, Vantiv, agrees with Drieling that technology makes VARs and ISVs more critical to the payments ecosystem than in the past. "VARs and ISVs provide a level of technology innovation that is higher than ever," says Rupert.

Jason Rupert
Senior Vice President and General Manager
ISO Business Unit

He adds that many are also specializing in vertical industries such as healthcare, retail, or legal. "VARs and ISVs are becoming experts in a variety of vertical industries, which is positive for merchant acquirers and ISOs," says Rupert. "The most successful VARs and ISVs are providing an end-to-end vertical solutions."

Rupert believes that the trend toward specialization will continue. "Investment by VARs and ISVs is at an all time high. We're seeing VARs and ISVs able to provide a full suite of products for a true vertical line solution," he notes. For example, Rupert says that some VARs and ISVs provide a full healthcare software suite to physician offices—from point of sale to scheduling to billing.

"Generic solutions are becoming less common," says Rupert. "Most VARs and ISVs are verticalizing their solutions as a way to appeal to merchants."

As VARs and ISVs seek to provide full solution sets, Rupert expects mergers and acquisitions to increase. "We'll see more M&As and partnerships of VARs and ISVs over the next few years as firms try to buy a full suite," he predicts.

Growth Prospects

"Acquirers and ISOs that have tried to use VAR and ISV offerings have tended to use a shotgun approach," says Rupert. However, in order for merchant acquirers and ISOs to compete in a complex market, Rupert recommends that they take a step back and define their strategy.

Instead, acquirers and ISOs need to understand their merchant base and its needs. Once an acquirer and ISO focuses on the merchant, they can then align with the right VARs and ISVs.

In addition to finding the right partners, acquirers and ISOs also need to be ready to invest in the VAR/ISV relationship, including investing in training and product support, says Rupert.

But the rewards may be worth the investment, especially since acquirers and ISOs typically have a good relationship with merchants. "By partnering with a VAR/ISV, the acquirer or ISO is able to develop an even deeper relationship with the merchant that will result in more loyalty," says Rupert. "Acquirers and ISOs do a really good job taking care of merchants since they tend to have such a high-touch approach. When you lay an offering from a VAR or ISV on top of that relationship, it becomes a homerun for the acquirer/ISO."

Drieling concurs that a partnership with a VAR or ISV can make good business sense for acquirers and ISOs. "We are seeing a rush for acquirers and ISOs to partner with providers in specialized markets," says Drieling.

Partnerships are also a way for acquirers and ISOs to differentiate themselves in an increasingly crowded market. "Acquirers and ISOs typically compete on price, but if you are a merchant, you will find value in having an integrated platform and other added benefits, such as data analytics, smart terminals, and even loyalty and rewards programs, that a VAR or ISV can offer. These benefits make the merchant more sticky and less likely to jump ship," says Drieling. ■

What is a Value Added Reseller-VAR?

SilverEdge is passionate about helping small to medium-sized businesses succeed by providing customized turnkey business solutions. SilverEdge has a wide suite of solutions to increase their client's profits and deliver an enhanced customer experience. Whether a business is looking for tablet-based point of sales, integrated loyalty programs, customer analytic tools, or cash advances, SilverEdge has a best in class solution.

Ken Salazar, President and CEO of SilverEdge

A Value Added Reseller is a company that identifies existing products and solutions in the marketplace, bundles them together into customized offerings to provide complete turnkey solutions that best meets the needs of their clients.

Why are POS resellers useful and often necessary?

POS resellers are useful and often necessary because they can identify their client's pain points and customize the appropriate solution based on their specific client's needs. That way their client isn't overbuying or under buying their point of sale solution. They also provide more personal customer service, often times even face to face.

Do VARs and ISVs play an important role in the acquisition of new merchants in U.S. merchant acquiring?

Absolutely, VARS and ISVs play an important role in the acquisition of new merchants in U.S. merchant acquiring because merchant acquirers now have a channel to bring new clients on due to their acquisition and adoption of new technology solutions versus coming onboard strictly for lower rates or a commodity product.

Can a POS Reseller be an individual, a large company or anything in between?

Yes, a company of any size can be a POS Reseller assuming they put in the right infrastructure and obtain the ability to support a large client base. An individual can also be a POS Reseller if they partner with the right company that can fully support their client's needs.

Do Merchant Acquirers need to readjust their models to account for VARs' and ISVs' increasing influence in merchant acquiring?

Yes, it is extremely important that merchant acquirers make it easy for VARs' and ISVs' to do business with them. That is everything from making it easy to integrate new technology to providing the appropriate amount of sales support to take care of the acquisition of new merchants. ■

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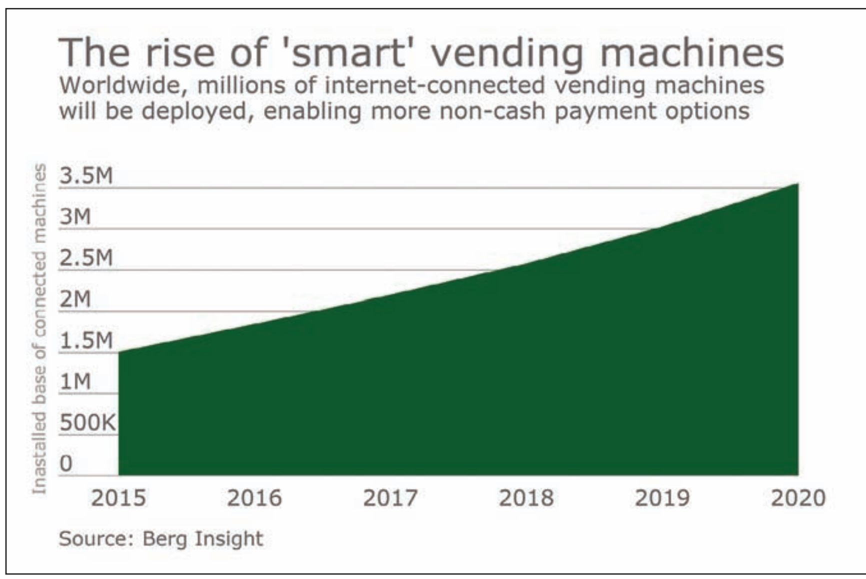
Vending Machines Get Smart

As more vending machines and kiosks connect to the internet, more opportunities open up for marketing, payments and loyalty. BY CHERYL WINOKUR MUNK

A new generation of Internet-connected vending machines could make digging for spare change and fiddling with uncooperative dollar bills a thing of the past. At a growing number of locations, customers can now pay by credit card and mobile wallet.

The market for so-called smart vending machines that accept credit cards and other payment types is growing quickly, presenting a revenue opportunity for payments companies. Today, only about 10 percent of the world's 17 million vending machines are Internet-connected—a figure that is expected to reach 20.3 percent by the end of 2020, according to the business intelligence firm Berg Insight.



"The vending machine market is growing aggressively, and right now many of those payments are generated in cash, so it's a big opportunity," says Dawn Dickson, founder of Solutions Vending in Columbus, Ohio.

The company started in 2012 as a smart vending solutions manufacturer and now makes smart vending machine software to retrofit traditional machines. The software allows machines to accept a variety of payment types, including Apple Pay, Android Pay, credit, debit and prepaid cards. Bitcoin will be supported later in 2017, and within the few years customers will also be able to pay using facial recognition, Dickson says.

Byte Foods, a smart vending machine supplier in San Rafael, California, doesn't even accept cash in its refrigerator-like machines, according to Lee Mokri, co-founder and head of sales and marketing.

Instead, customers pay for restaurant-quality fresh food with their credit, debit or prepaid card. Payments using mobile wallets and bitcoin are in the works for later this year, Mokri says. "People aren't carrying as much cash today. We're using the payments tools that people already have."

To be sure, the allure of smart vending machines goes beyond payments.

For instance, with an app on their phone, customers can locate certain Internet-connected vending machines, according to Phani Pandrangi, chief product officer at Kii, a Toyko-based IoT company that creates software solutions for industries such as vending. Customers can also use the app to determine what items local machines stock, whether they are currently working and which payment options they support. "Smart vending is going to be a pretty integral part of lots of venues going forward," he says.

For vending operators, smart vending machines are invaluable because of their inventory management tools. They keep track of sales in real time to help vendors more efficiently keep them stocked. Analytical tools also help vendors identify popular and unpopular products as well as purchasing patterns and customize their offerings accordingly. Smart machines also allow operators to identify malfunctioning machines quickly—sometimes even before problems affect customers.

The ability to offer digital coupons and special promotions to customers who opt in presents another potential revenue-generating opportunity.

Some smart vending machines also have the ability to make product suggestions based on biometric data. For the past few years, for instance, U.K.-based Costa Coffee has been using cameras to discern things like gender, estimated age and mood and make recommendations accordingly, says David McCarthy, director of products at Bsquare Corp., a Bellevue, Washington, IoT software solutions firm that works with Costa.

Smart vending machines are also showing promise for the cannabis space, which now relies heavily on cash transactions.

Dickson of Solutions Vending says her company hopes to someday use its technology to help cannabis dispensaries accept other forms of payment. The machines would use biometrics to verify the identity of customers and ensure they have the proper credentials to purchase cannabis products. Once verified, customers could pay for the products using credit card, debit, prepaid, mobile wallet, or bitcoin.

Smart vending may also open doors to niche payment types. Pandrangi of Kii predicts many more opportunities to come, such as vending machine in college dorms that accept student ID cards as payment.

"This is a new frontier," says McCarthy of Bsquare. "People have been using smart vending technology for a few years in different ways, but it's still in the early days." **ISO**

TARGETING THE FRICTION BETWEEN ADS AND `BUY BUTTONS'

Given the pressures of cart abandonment and showrooming brought about by digital marketplaces, traditional retailers are trying lots of ways to fight back with digital techniques of their own.

One possible inflection point is enabling people to buy and item directly from an advertisement, rather than redirecting to a checkout page from an ad. It seems intuitive, but there are many obstacles in the way of bringing such a concept to market.

OmnyWay, the company that helps power Kohl's Pay, among other retail clients, aims to solve this issue with the launch of ZapBuy, which it introduced to enable consumers to ªzapº an ad to purchase the item.

Placing a buy button in an ad is more challenging than a purchase trigger on a website because the user has already signed on in the latter case, according to Tim Sloane, vice president of payments innovation and director of the emerging technologies advisory service at Mercator.

ªThere have been several attempts at advertising buy buttons via bar codes, but none have been successful,º Sloane said.

OmnyWay, which this week changed its name from OmnyPay to reflect the growing move by payments technology vendors to reposition themselves as providers of broader merchant services, uses a mix of mobile technology and links to ad networks to move consumers directly from an ad to checkout.

ªThis one strikes me as different because it isn't a solution claiming to be out of the box for all ads, instead it is retailer specific,º Sloane said. ªThis retailer focus is key to enabling a lower friction implementation.º

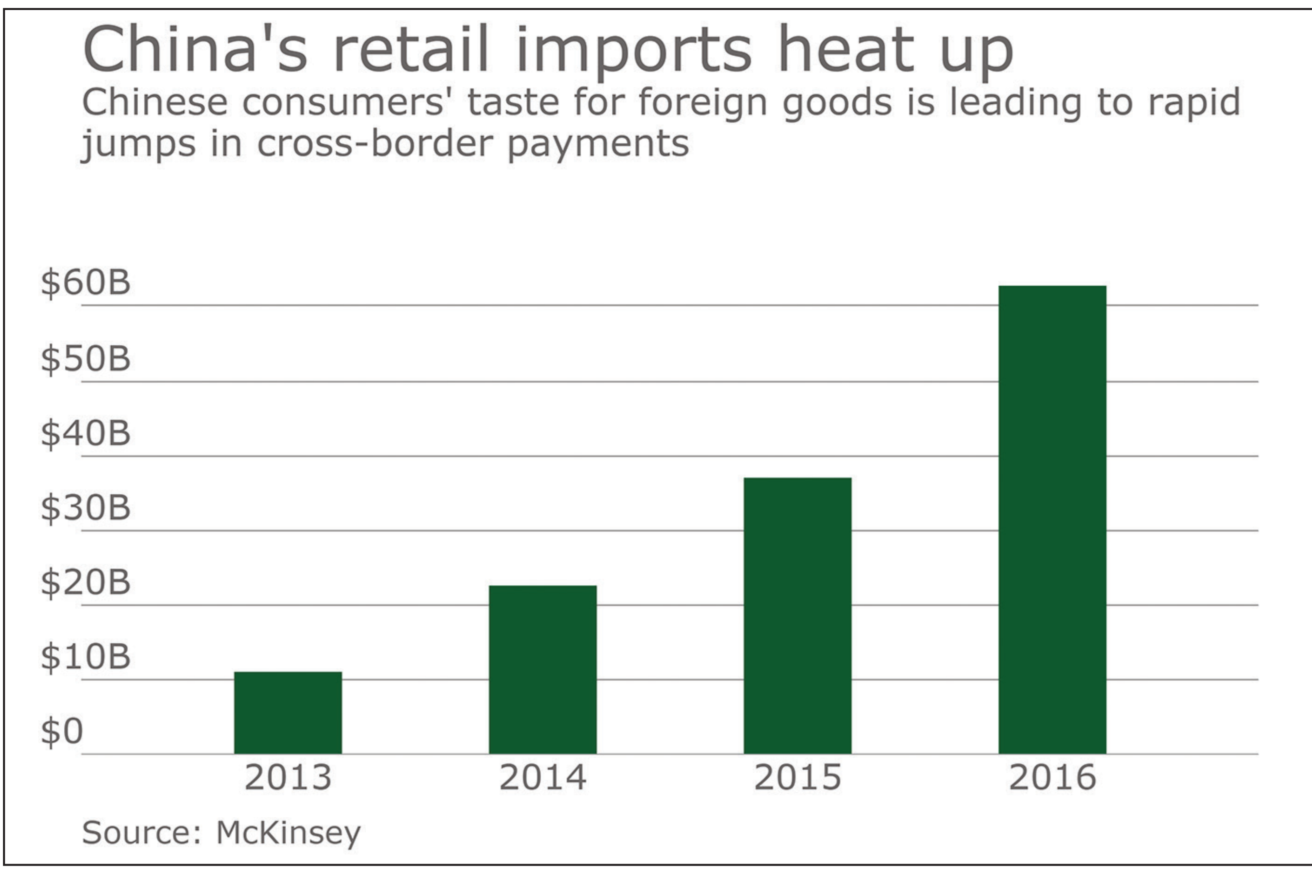
Otherwise, ZapBuy sticks to the basics. It uses QR codes and other technology to allow smartphones to capture information about a product through a scan. This scan works for print, display, social media, email, television and other media.

QR codes are an old technology, but is a go-to choice for many mobile wallet providers because it does not require any advanced technology on the part of the consumer. Starbucks, Kohl's and Chase Pay all use QR codes or bar codes with their mobile wallets.

In the case of ZapBuy, once the consumer scans an ad for a branded product, he or she will find out where that product can be purchased and offer an instant payment.

China's Payment Opportunities

While many payment companies are focused on supporting Chinese travelers as they journey abroad, there is another opportunity to address sales into the country. BY JOHN ADAMS



There's been a lot of funding flowing into technology that targets the spending of Chinese travelers as they visit other countries. But this narrow use case isn't the only opportunity for investment and innovation.

CLSA Capital Partners has made an investment in Azoya, a Shenzhen, China-based e-commerce companies that manages payments and other functions on behalf of foreign retailers wishing to sell into China.

There is a clear opportunity, if not a necessity, for merchants to sell inside China. It's a huge market that consistently sets e-commerce records and an appetite for mobile technology.

But recognizing the size is all that's easy. China's local payment ecosystem makes it hard for external companies to enter the market on a variety of levels, according to Azoya.

"There are numerous challenges, including technical, regulatory and marketing," said Franklin Chu, a New York-based managing director at Azoya.

"We don't want the merchants to have to worry about that."

CLSA did not make an executive available for an interview, nor did it disclose the size of the investment.

Despite deregulatory signals from the Chinese government, even the largest U.S. payment brands, including Visa and Mastercard, have found it challenging to establish a local presence, partly due to local processing regulations designed to protect UnionPay's near monopoly over card payments. Also, fewer European and U.S. merchants have relationships with Chinese e-commerce company Alibaba and its digital transfer subsidiary Alipay than with more recognizable Western brands such as PayPal.

"The Chinese payments market has been rather closed for many years and has been notoriously difficult to enter for Western companies," said Zil Bareisis, a senior analyst at Celent. "While it's opened up a bit in recent years, it remains a complex market with dominant local players and its own set of regulations, so local partnerships can be crucial to success."

Azoya attempts to circumvent that by being the merchant of record for local transactions, then relying on its existing relationships with UnionPay and Alipay to smooth issues such as compliance and the original merchant's need for a relationship with a Chinese card issuer, UnionPay or Alipay. Chinese payments also have a complex transaction processing chain that can pose challenges for outside merchants.

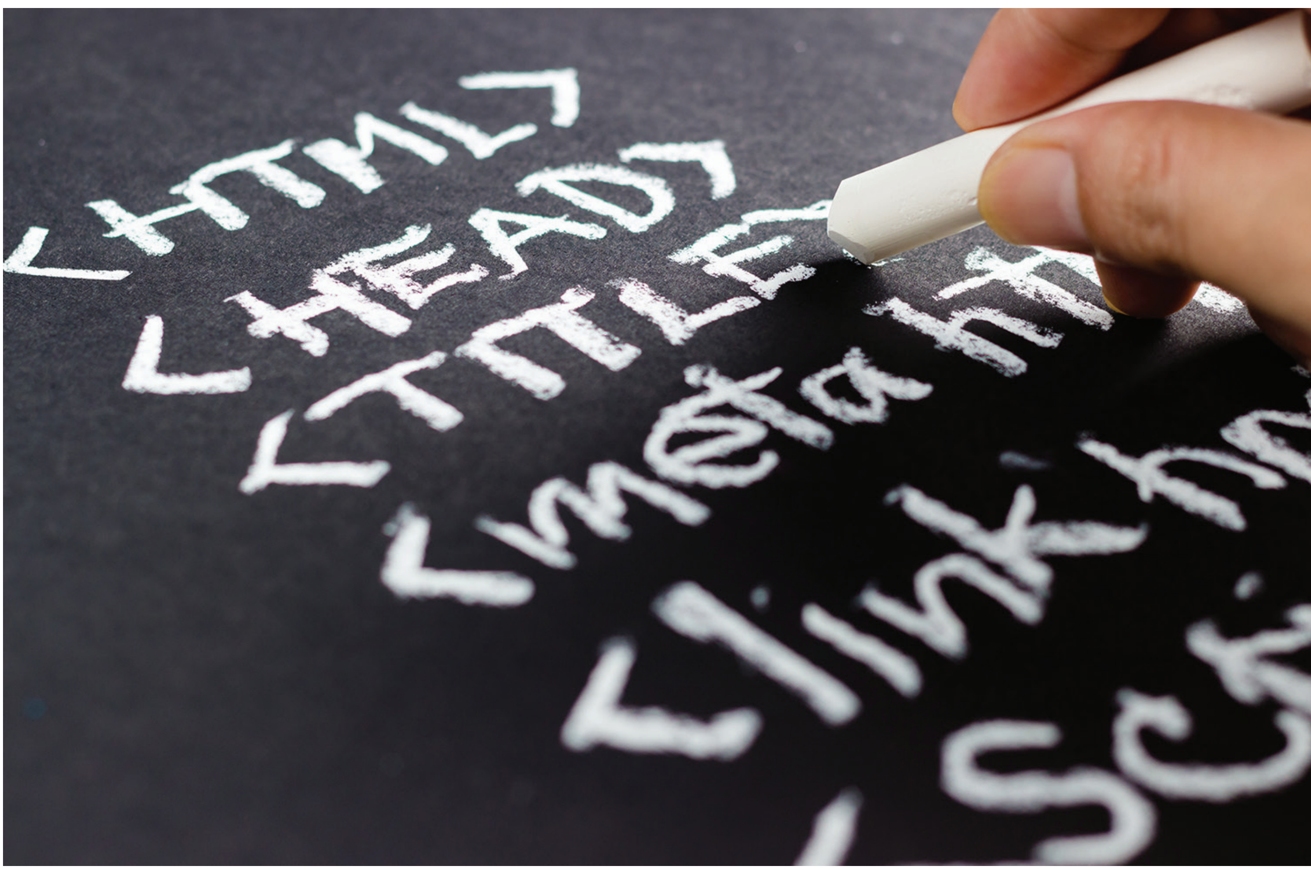
"We maintain and manage every of their business in China, starting from creating a Chinese e-commerce site, processing the payments, customer service, tax and duties, etc.," Chu said.

Azoya also shares some of the risk. It collects payments in local currency, then converts the currency at the end of the month to pay the foreign merchant. Azoya's fees are based on the volume of successful transactions.

The company is hoping to benefit from the popularity of U.S. brands with Chinese consumers, an affinity borne of increasing international travel. **ISO**

Dwolla Builds a Simpler Sandbox

Open software development tools have empowered many merchants, but this technology may still seem out of reach to those without programming expertise. **BY JOHN ADAMS**



The app economy has grown big enough now that many of the early rules no longer apply.

The audience itself is changing, said Dwolla's Jordan Lampe. In the early days, real-time payment capabilities appealed most to companies paying freelancers and contractors. Today, the audience consists of many businesses that have broader needs and less expertise.

"It's not just 'emergency' payroll services," said Lampe, who's a spokesperson for the Des Moines, Iowa-based Dwolla, which offers digital payments and merchant developer tools. "One of the things you find is there are a lot of businesses with new payment needs. We spotted a company that authenticates luxury handbags, for example. They buy the handbags, authenticate them and then sell them on the other side. They have to get payouts to sellers very quickly."

The proliferation of real-time payment needs, and the growth of technology providers chasing merchant marketplaces, has led Dwolla to remove some of the barriers to using its application programming interface. It's also taking its faster ACH payments product out of pilot.

Dwolla's app Transfer is designed to require less technology knowledge at the onset. A tool for small to medium sized businesses, Transfer does not necessitate coding skills to set up payments rails, and works with existing small-business commerce software such as JotForm, Shopify and Due.

The move also follows a strategic evolution away from consumer-facing products toward business services at Dwolla.

Part of the strategy is targeting the digital marketplaces that are increasingly popular because the model allows fulfillment and cross-border transaction issues to be digitized, enabling a very small business to sell across the country, or outside of the country.

It's an industry that's also attracted WePay, which uses its API tools to enable these marketplaces to power payments for sellers.

BlueSnap in January introduced Payments for Marketplaces, which is designed to execute payments quickly, manage sales reporting and onboarding for new sellers.

BlueSnap's platform also manages commissions for sellers.

"We see digital marketplaces using this, but operations without a developer on staff that don't immediately have the payments volume to require a larger system," Lampe said. "But they do need a way to pay out funds quickly in a way that's compatible with their current tech stack."

Dwolla's Transfer costs 0.5% per transaction, with a $5 maximum fee. Once the merchants' volume reaches a critical mass, it can upgrade to a $250 monthly package without transaction fees.

The vendor has taken its Same Day ACH product out of pilot and making it available to all approved Access API users.

During testing, Dwolla found same day ACH credits aid cash management internally and allow businesses to sell expedited payments to their own clients, Lampe said.

"The expectation is that ultimately there will be opportunities for a broader set of alternative digital providers of faster real-time payments, particularly on the consumer side," said Linda Coven, a senior analyst at Aite Group.

The banks will continue to dominate on the wholesale side though there will be opportunities for financial supply chain providers that can provide value-added messaging to the real-time payment, Coven added.

To fuel its efforts, Dwolla in January raised $6.85 million in a funding round led by Union Square Ventures and Founding Group, along with Next Level Ventures, Ludlow Ventures, High Alpha, Firebrand Ventures and Detroit Ventures.

Dwolla says the funds it rasied in this round will be used to hire and expand sales operations at its headquarters in Des Moines, Iowa.

"The Midwest has a wealth of resources, but its biggest strength is its people and that's a competitive advantage we plan on continuing to invest in," Ben Milne, CEO, said in a press release. **ISO**

Dining with Mobile and Loyalty

If it seems EMV is slow to take hold at restaurants, it may be because other emerging technologies are taking priority. **BY KATE FITZGERALD**

U.S. restaurants' EMV migration has lagged behind other retail categories for several reasons, including the hassles of replacing centralized payment systems with pay-at-the-table routines that chip cards often require. But another reason: Restaurateurs have other priorities.

EMV's anti-counterfeiting properties address one narrow concern, but mobile and digital payments open up entirely new business opportunities, as evidenced by the recent deluge of order-ahead apps. And even this trend leaves a lot of room for innovation.

About 68% of restaurant executives surveyed by TD Merchant Solutions, a unit of TD Bank, said they don't currently offer mobile payments. And 75% said they don't currently offer a loyalty or rewards program.

"Restaurants are dealing with a lot of pain points with respect to payments, mobile and loyalty and most of them are still in the very early stages of finding solutions," said Doug Mearkle, head

of U.S. cards and merchant services for TD Bank Merchant Solutions. TD Bank commissioned the study among top restaurant decision-makers at the International Restaurant and Foodservice Show in New York March 6 and 7, 2017, working with Prosek Partners to gather and collate the data.

About a third of survey respondents said their existing point of sale systems aren't configured to support mobile payments, while the remainder said they don't offer mobile payments because they see no need or customer demand for it.

Restaurants are taking many approaches to handle mobile payments, pay-at-the-table and loyalty, including building entirely new systems and introducing new apps.

Los Angeles-based California Pizza Kitchen (CPK) in February unveiled a new system in its 200 U.S. stores that married its existing restaurant management and payment system from NCR with a new, app-based payments approach from Newton, Mass.-based Paytronix Systems Inc.

"The omnichannel capabilities of the new CPK app, in concert with our mobile-optimized digital and social marketing strategy, allow us to reach guests on their preferred technology platform in a relevant and seamless way," said Ashley Ceraolo, CPK's senior vice president of marketing, in a recent blog post.

CPK's in-app mobile payment system integrates with the CPK Pizza Dough Rewards program that enables diners to earn, track and redeem purchases and rewards. It also allows them to opt in to receive real-time marketing messages for in-restaurant, online ordering and takeout experiences.

Diners pay by linking a payment card within the app, speeding up the checkout process by about 12 minutes, which drives more efficiency during peak hours, Paytronix said.

About 80% of CPK's customers connect with CPK via their mobile devices and many already were members of the Pizza Dough Rewards program, which provided an easy ramp to migrate customers to use the app for ordering and checkout in the restaurant. In addition, CPK continues to support the option of a traditional checkout minus a mobile device, Ceraolo said.

Paytronix began as a specialist in restaurant loyalty and gift card programs that's steadily developing broad integrations to link restaurant chains' existing payment systems with broad loyalty programs.

Other Paytronix clients include Panera Bread and Bloomin' Brands, which operates the Outback, Carrabba's and Bonefish restaurant chains.

While restaurants have been relatively slower to adopt EMV because food services have a lower proportion of counterfeit card fraud, as an industry restaurants are not afraid to embrace new technology.

"There's a lot of chaos and innovation going on right now with technology around mobile payments and loyalty, and many restaurants are watching examples like Starbucks and others closely and experimenting," said Robbins of Paytronix. "But restaurant operators actually are willing to take risks and they tend to be entrepreneurial at their very bone marrow, but they want to be sure before they commit to solutions."

Another company that began in the restaurant loyalty-program business that's now moving into payments is Punchh, a Mountain View, Calif.-based firm launched in 2010.

"For most restaurant chains, loyalty is fundamentally broken, because the CRM element is all hindsight-driven with people signing up later or not at all," said Shyam Rao, Punchh's CEO. "More restaurant chains in the U.S. now accept payments through mobile channels, but the majority don't acknowledge that they know who you are or how often you visit."

Punchh got its start providing loyalty services to chains including Cici's, Moe's Southwest Grill, Noodles & Co. and Quizno's and now it's adding payments through direct integrations and partnerships with several clients.

San Francisco-based payments provider Revel Systems worked with Punchh last year to service large restaurant chains. **ISO**

One-Size-Fits-All Authentication

Now that consumers are more comfortable with certain forms of biometrics, is there a chance to use a single device to provide security across all their accounts? **BY JOHN ADAMS**

In an increasingly digital world, retailers are working to bring transactions closer to the shopper and further away from traditional hardware.

Biowatch brings that trend about as close to the shopper as possible, with a product that can be used once to provide authentication for multiple services.

"The 'things' connected to the Internet do not have a way to authenticate the human being interacting with them," said Matthias Vanoni, cofounder and CEO of Biowatch, a Lausanne, Switzerland startup that uses vein recognition technology to authenticate people for a variety of purposes. "But the 'things' can recognize a device like a wearable. Biowatch's recognition of the wearable means recognizing the human being behind that."

Biowatch has been gradually attracting attention since its founding two years ago. It recently drew a $1.2 million seed round and a cash stipend of about $35,000 for winning a Visa developer contest at the recent Mobile World Congress, a prize that comes with a significant boost to the startup's visibility and reputation.

"Visa will be useful to increase our credibility towards partners and thus accelerate product development," Vanoni said. "That will allow us to integrate more easily into bank applications worldwide."

As companies attempt to retire passwords in favor of more advanced methods, security providers will be pressured to find ways to make biometric options more reliable and attractive to users. In the past, biometric authentication methods have had a tough time taking hold in the retail world, with one of the most prominent flare-outs being the Pay By Touch system.

Biowatch's play is to authenticate a single time for multiple services. It uses a wrist vein reader to scan a person's veins and runs that image against a preregistered template. Feedback tells the user the authentication is successful, then tells the user to close the clasp on the wearable. When the clasp is closed, the company's technology monitors the clasp to ensure it remains closed.

"As long as [our] system is active the [consumer] can use the wearable to authenticate third party services using their protocol with no need for biometric or any further authentication," Vanoni said.

Biowatch will use Visa's API to create a Visa Ready payment product that can integrate into banks' mobile apps, exposing Biowatch to an addressable market of millions of consumers. Biowatch can work with other parties through its own application programming interface.

Body recognition sounds futuristic, but it's not a brand new concept. RBC has deployed a payment wristband in partnership with Mastercard and Bionym that uses heart rhythms to verify users. And facial recognition is behind the increasing number of "selfie pay" initiatives. **ISO**

How Tech Is Propping Up Cash

Digital payment technologies often have the goal of `competing' with cash, moving more payments to card network rails. But technology can also keep cash flowing at stores that prefer it. BY KATE FITZGERALD

As many tech companies push to counter the use of cash in favor of cards and mobile wallets, some merchants are pushing back by urging the use of cash.

Certain sectors already offer a cash discount—the practice is common with gasoline sales—but on a one-off basis many merchants are unsure how to handle the practice. Despite cash being seen as a counter to the costs and complications of digital alternatives, cash use can also benefit from a bit of targeted technology.

That's the case for The House, a sports bar and grill in Arlington, Texas, which recently adopted SignaPay's PayLo software to automate cash discounts and saw its payment costs fall by nearly $1,000 a month, said owner Mike Brewer.

"We were paying about $1,100 a month in credit and debit card fees each month and after introducing cash discounts, that number dropped to about $140," Brewer said.

The House's average transaction is about $20, and when a server rings it up, PayLo calculates the interchange, card association and network fees to be about 79 cents, according to Brewer. The software then offers a discount of that amount for customers who pay in cash.

"A fee as little as 79 cents may not sound like much, but for a small business it adds up throughout the year," Brewer said. The House also benefits from improved cash flow since adopting PayLo, according to Brewer.

Customers had mixed reactions when Brewer introduced PayLo a few months ago.

"Some people didn't like it, but we have a lot of regulars and once they understood the system, they haven't had a problem with it," Brewer said.

SignaPay developed its software for merchants who said they wanted to push cash over cards struggled with the complexity of determining an appropriate cash discount and explaining how it works.

"Most merchants know they can offer a cash discount, but they don't know how to execute the whole thing," said Joe Martillo, CEO of SignaPay's an Irving, Texas-based supplier of payment terminals and software.

PayLo applies a "customer service fee" to each sale made with the company's payment terminal. The customer can skip paying the fee by opting to pay with cash or a gift card, which the merchant must explain, in accordance with card network policies.

The PayLo software calculates a fee based on the interchange, card association and network fees for each transaction, which may vary based on the card, according to Martillo. ISO

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PayPal, Oro Partner on B-to-B

PayPal has evolved a lot over the years, but it still has a strong reputation as a P-to-P brand. Its technology could also help emerging players in the B-to-B market. BY KATE FITZGERALD

Oro Inc., a rising force in the emerging $7 trillion business-to-business e-commerce market, is teaming with PayPal to streamline transactions as more global suppliers move their sales online.

PayPal has created a fully integrated payments solution for Oro's open-source website, OroCommerce, to handle the process for buyers to pay for, track and receive goods and services.

Oro's CEO is Yoav Kutner, who was a co-founder and chief technology officer at Magento, an open-source e-commerce platform launched in 2008 that eBay Inc. acquired in 2011 for $180 million. In 2010 Magento inked a similar deal to Oro's with PayPal, Kutner said.

Magento's platform was built to support online stores for consumers, whereas OroCommerce enables B-to-B sellers to display vast, complex catalogs designed to sell products and services to other businesses, according to Kutner.

Oro, founded in Los Angeles in 2012, has quickly expanded to 190 employees with offices in Ukraine, Poland and Germany, and its deal with PayPal will likely accelerate growth, Kutner said.

"Once a buyer's payment credentials are stored via PayPal with Oro, it opens up more advanced use cases," Kutner said.

Examples include scenarios where a company buying supplies from a B-to-B e-commerce site has a team of employees involved in a single transaction. "One of the complexities of B-to-B e-commerce is there is no single buyer—there's often someone in research, a buyer, a manager and a sales rep—and they're all parties to one purchase," Kutner said.

The OroCommerce website also enables buyers to associate details of products they buy from Oro with their own CRM systems.

A B-to-B e-commerce platform with built-in CRM integration is a rare combination, said Kate Leggett, a CRM expert who is a vice president and principal analyst with Forrester. Having a 360-degree view of prior communications and interactions along with customers' transactional history facilitates customer service and cross-selling, among other things, Leggett added.

One of the new frontiers in B-to-B e-commerce is expanding general sales and marketing opportunities via mobile devices, according to Kutner.

"At expos and tradeshows, a seller can show a prospective customer the catalog via Oro on a mobile device, and generate a price quote on the spot instead of waiting until they get back to the office to create a transaction through paper and phone calls," Kutner said.

Oro recently raised $12 million in financing from Highland Capital Europe. ISO


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